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# Japan Report

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16 April 1984

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## ECONOMIC

### INFLUENCE OF CAPITAL MOVEMENT ON DOMESTIC MARKET STUDIED

Tokyo CHOSA GEPP0 in Japanese Sep 83 pp 1-19

[Article by the Bank of Japan Bureau of Investigation and Statistics: "Domestic and Foreign Capital Movements and Their Influence on Domestic Capital"]

[Text] Preface

1. Since 1975, nonresidents' participation in Japan's financial and capital markets has increased, while trading carried out in foreign currency among residents has become active along with foreign investments made by the residents of Japan. These domestic and foreign capital movements have been further stimulated by the new foreign exchange and foreign trade regulations which became effective in December 1980. Amidst all this, the weight of trading carried out in foreign currency by Japan's enterprises and financial organizations in raising and investing capital has been increasing gradually.

2. Regarding the domestic and foreign capital movements, long-term capital movement consists mainly of those uncovered transactions without forward exchange reservation, and the direction and scale of this movement are determined mainly by the long-term domestic and foreign interest differential and the expected rate of change in the exchange rate during the term of investment.

Moreover, not only the expected rate of change in the exchange rate but also the long-term domestic interest rate are directly affected by the change in the long-term foreign interest rate and the consequent adjustment in portfolios made by domestic and foreign investors. Japan's high long-term domestic interest rate in recent years can be seen as having been significantly influenced by the high long-term foreign interest trade.

3. On the other hand, short-term capital movement consists mainly of those covered transactions with forward exchange reservation, and according to the actual results in recent years, the domestic and foreign short-term interest differential and the spot and forward exchange spread have been adjusted to approximately the same level in the end by such a capital movement. Moreover, the short-term domestic interest rate is very unlikely to be affected directly by foreign factors for the following two reasons: 1) The liquid position maintained by the banks will hardly be affected by the inflow and outflow of



of short-term capital as long as the central bank does not intervene in the exchange market. 2) The change in the short-term domestic and foreign interest differential can be absorbed by rapid and small-amplitude change in the spot and forward spread.

4. The exchange rate is affected mainly by the uncovered capital transactions of the domestic and foreign capital movement, or the long-term capital movement. Therefore, the exchange rate is directly affected more significantly by the long-term, rather than short-term, domestic and foreign interest differential. However, the short-term domestic interest rate manipulated by the central bank affects the exchange rate through the following two routes:

1) It changes market participants' expectations (estimates) regarding the future exchange rate by revealing the central bank's policy stance. 2) The long-term interest rate is affected by the interest arbitrage it undertakes among the domestic long-term and short-term capital markets. The belief that short-term interest rate manipulation can be used as an exchange rate countermeasure is based on these concepts.

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## Introduction

Since 1975, a phenomenon that may be called the "internationalization of finance" has been making progress in Japan's financial and capital markets as the control on exchange is gradually being liberalized. This "internationalization of finance" is reflected concretely in the increased activity in the domestic and foreign capital movements in the short-term capital market and bond market. The significant change in the exchange rate that accompanied this as well as the impact of the foreign interest rate on the domestic interest rate are quite noticeable, and administration of Japan's financial policies has been substantially affected by it.

In order to ascertain the impact of this phenomenon on the future administration of financial policies, the domestic and foreign capital movements in recent years and their background have been reviewed briefly, and the influence of domestic and foreign capital movements on the domestic interest rate and the exchange rate has been analyzed. This article presents the results obtained from this study.

### 1. Present State of Domestic and Foreign Capital Movements

Recently, capital movements between residents and nonresidents of Japan in the short-term capital market and the bond market of Japan and other countries have become highly active, and trading in foreign currency among the residents has also made remarkable progress (these two will be combined and simply called "domestic and foreign capital movements" hereinafter). Especially after the "foreign exchange and foreign trade regulations" were revised in December 1980, with the consequent liberalization on impact loans and foreign currency deposits held by residents, this trend has been further stimulated. Here, the situation surrounding domestic and foreign capital movements will be discussed first of all according to the short-term and the long-term capital markets, followed by a brief review of the present state of the so-called "internationalization" of capital-raising and investment made by Japan's enterprises and financial organizations.

#### (Present State of Short-Term Capital Movement)

The present state of short-term capital movement shows an increased flow of capital through a free capital market which does not impose restrictions on the trading participants, as seen in the spot and forward investment or investment of yen deposits made by nonresidents, investment of foreign currency deposits or acquisition of short-term impact loans by residents.

To look at this according to the main transactions, first of all the investment made by nonresidents in the domestic short-term capital market (Table 1):

Table 1. Investment and Fundraising by Nonresidents in Short-Term Domestic Capital Market

(第1表)

非居住者等による国内短期金融市場での運用・調達

(1) (単位: 億円, < >内%)

		54年 1979	55 1980	56 1981	57 1982	(2) 54年→57年 変 化 幅
(3) 運	(4) (5) 公社債現先残高 (年末、< >内は年中平均)	< 3.4> 739	< 4.0> 1,139	< 9.7> 8,117	< 14.0> 5,505	(6) <%ポイント> + 10.6 (7) 7.4倍
住	(8) 非 住 者 預 金 残 高 (年 末)	7,440	15,860	18,840	21,800	2.9倍
在	(9) (10) コール・手形市場 運 用 残 高 (年 中 平 均)	< 1.8> 1,706	< 4.3> 4,047	< 3.4> 2,831	< 6.4> 5,406	<%ポイント> + 4.6 3.2倍
日	(11) (10) コール・手形市場 調 達 残 高 (年 中 平 均)	< 6.9> 6,455	< 7.1> 6,764	< 9.5> 8,102	< 6.9> 5,889	<%ポイント> 0.0 ▲ 8.8%
外	(12) C D 発 行 残 高 (年 末)	< 14.0> 2,547	< 10.9> 2,572	< 12.6> 4,137	< 8.4> 3,629	<%ポイント> ▲ 5.6 + 42.5%

注) 1. < >内は各残高に占めるシェア。

(13) 2. 公社債現先残高は、農林現先残高(日本証券業協会調べ)による。

3. 非居住者預金残高は、全国銀行主要勘定等から推計。

4. コール・手形市場の調達・運用残高、CD発行残高は、日本銀行「経済統計年報」による。

Key:

- Unit: 100 million yen; percentage figure in ( )
- Amplitude of change over 1979-82
- Investment
- Nonresident
- Balance of spot and forward public corporation bond (year-end, annual average figure in ( )
- % point
- 7.4 times
- Balance of deposits in yen held by nonresidents (year-end)
- Foreign banks in Japan
- Balance of call bill market (midyear average)
- Fundraising
- Balance of CD floated (year-end)
- Notes: 1. Figures in ( ) show the percentage of total balance.  
2. Figures for the balance of spot and forward public corporation bonds represent the balance broken down according to business conditions (data based on an investigation carried out by the Japanese Association of Securities Dealers). 3. Balance of deposits in yen held by nonresidents was estimated from the major accounts held in banks nationwide.  
4. Figures for the balance of fundraising and investment in the call bill market and the balance of CD floated were based on the "Annual Report on Economic Statistics" compiled by the Bank of Japan.

spot and forward transactions have increased significantly since May 1979, when the ban on transactions by nonresidents was lifted (the balance increased 7.4 times from 1979 to 1982, the share of the total balance from 3.4 percent in 1979 to 14.0 percent in 1982), and yen deposits made by nonresidents centered around deposits made by official foreign organizations have also increased considerably since March 1980, when the interest rate on the deposits held by these organizations was liberalized (ditto, 2.9 times). To look at the situation surrounding investment and the raising of funds by foreign banks in Japan: on the side of fund-raising, overseas fund raising has increased in step with a gradually expanding yen conversion limit, while on the side of short-term investment, the share of investment in the call bill market has expanded (from 1.8 percent in 1979 to 6.4 percent in 1982) at the time of the slump in demand for capital by enterprises, and activities related to interest arbitrage have been undertaken actively between the domestic interbank market and the overseas short-term capital market.

On the other hand, to look at short-term foreign transactions and investment and the raising of funds in foreign currency undertaken by residents (Table 2): while the balance of trade credit letters and domestic loans held by nonresidents, which used to occupy the largest share, have not shown any appreciable overall growth, on the side of investment, foreign currency deposits made by residents have increased substantially (the balance increased 5.5 times from 1979 to 1982, with the liberalization of foreign exchange and foreign trade regulations as a turning point. On the side of fund-raising, short-term impact loans have increased substantially (ditto, 61.0 times) as a result of impact loans secured by securities companies aiming at arbitrage with domestic call.

Table 2. Foreign Trade and Investment and Fundraising in Foreign Currency Undertaken by Residents

(第2表)

居住者による短期の対外取引および外貨での運用・調達

(1) 単位・億円、( )内はドル

	54年 1979	55 1980	56 1981	57 1982	(2) 54年→57年 変化幅
(3) (4) 民間部門の 対外短期資産残高 (年末)	2,348 ( 11.4)	2,154 ( 8.9)	3,864 ( 18.4)	...	(5) 54年→56年 + 64.6% (+ 61.4%)
(6) 外貨預金残高 (年末)	3,028 ( 14.7)	9,075 ( 37.5)	10,059 ( 47.9)	16,746 ( 71.9)	(7) 5.5倍 ( 4.9倍)
(8) (9) 民間部門の 対外短期負債残高 (年末)	29,252 ( 142.0)	38,744 ( 160.1)	34,629 ( 164.9)	...	(5) 54年→56年 + 13.4% (+ 16.1%)
(10) 本邦ローン残高 (年末)	33,600	43,600	32,600	25,400	▲ 24.4%
(11) 短期 インパクト・ローン残高 (年末)	721 ( 3.5)	6,171 ( 25.5)	28,602 ( 136.2)	43,990 ( 183.8)	61.0倍 ( 53.9倍)

(注) 1. 外国為替基準相場にて円換算。

(12) 2. 民間部門の対外短期資産・負債残高は、大蔵省「本邦対外資産負債残高」による(金融勘定を除く)。

3. 外貨預金残高、本邦ローン残高、短期インパクト・ローン残高は、「大蔵省国際金融年報」による。

Key:

1. Unit: 100 million yen; figures in \$100 million in ( )
2. Amplitude of change over 1979-82
3. Investment
4. Balance of short-term foreign assets held by private sector (year-end)
5. 1979-81
6. Balance of deposits in foreign currency (year end)
7. 5.5 times
8. Fundraising
9. Balance of short-term foreign bonds held by private sector (year-end)
10. Balance of Japanese loan (year-end)
11. Balance of short-term impact loan (year-end)
12. Notes: 1. Converted into yen according to the foreign exchange base rate. 2. Figures on balance of short-term foreign assets and bonds held by private sector are based on "Balance of Foreign Assets and Bonds Held by Japan" compiled by the Ministry of Finance (excluding financial accounts). Figures on balance of deposits in foreign currency, balance of Japanese loans, and balance of short-term impact loans are based on the "Annual Report of the International Finance Bureau, Ministry of Finance."

### (Present State of Long-Term Capital Movement)

The long-term capital movement has also experienced a substantial expansion in scale in both investment and raising of funds, and this movement is having an increasing impact on the domestic bond and stock markets.

To look at this movement according to the main transactions, as was done for the short-term capital movement: first of all, regarding nonresidents (Table 3), the balance of investment in the domestic bond market centered around national bonds held by official foreign organizations as doubled since February 1979, when regulations on purchasing Japanese bonds were completely abolished, and consequently the shares held by foreigners have expanded (from 3.9 percent in 1979 to 6.7 percent in 1982). In the stock market, too, the number of stocks held by foreigners increased 2.4 times from 1979 to 1982, while the volume of total sales increased 3.3 times, and the shares held by foreigners have also expanded significantly (from 2.9 percent in 1979 to 8.9 percent in 1982). On the other hand, on the side of fundraising, yen loans (foreign bonds in yen) raised in Japan by official foreign organizations have also increased (the balance increased from 1.6 trillion yen in 1979 to 2.9 trillion yen in 1982). Moreover, the average length of investment (the turnover period) in domestic bonds by nonresidents has gradually diminished, against the background of a widely fluctuating exchange rate, to about 6 months recently (from 1.24/year in 1979 to 2.04/year in 1982).

To look at the long-term foreign transactions and the investment and raising of foreign currency undertaken by residents (Table 4): the balance of long-term foreign assets (including direct investment) has increased nearly 50 percent in the 2 years from 1979 to 1981 thanks to the foreign advance made by domestic enterprises and the widespread new and old loans taking advantage of the high foreign interest rate. The balance of investment in foreign securities, in particular, has increased substantially (from 3.9 trillion yen in 1979 to 6.6 trillion yen in 1981), thanks to a substantial increase in foreign bond purchases aimed at diversification of asset applications undertaken by the life and loss insurance companies. On the other hand, on the side of fundraising, the increase in floatation of foreign bonds and medium- and long-term impact loans as a result of the liberalization of foreign exchange and foreign trade regulations is noticeable. Moreover, the substantial increase in floatation of foreign bonds is seen to have been a result not only of the lack of organization in the domestic business bond market and a desire to diversify the fund-raising route by enterprises, but also by the interest rate on the Swiss franc bond market undergoing a change at a relatively low level. The average investment period (turnover period) in foreign securities has been about 2 years recently, which is somewhat longer than that of domestic investment.

Table 3. Investment and Fundraising in Domestic Bonds and Stocks Undertaken by Nonresidents

(第3表)

非居住者による国内債券・株式市場での運用・調達

		(1) 単位: 億円 (100 million yen)				(2) 54年→57年 変化幅
		54年 1979	55 1980	56 1981	57 1982	
(3) 運	(4) 債券保有残高 (年末)	27,877	40,176	50,975	61,425	(6) 2.2倍
	(7) 債券売買総額 (年中)	< 3.9> 34,480	< 5.0> 56,183	< 6.2> 90,464	< 6.7> 125,440	(8) %ポイント + 2.3 3.6倍
(3) 用	(9) 株式持株数 (年度末)	(11) 2.5 5.073	< 4.0> 8,714	< 4.6> 10,717	< 5.1> 12,177	%ポイント + 2.6 2.4倍
	(10) 株式売買総額 (年中)	< 2.9> 23,386	< 5.4> 45,607	< 8.4> 99,163	< 8.9> 76,200	%ポイント + 6.0 3.3倍
(13) 調達	(14) 円建外債発行残高 (年末)	< 1.2> 15,527	< 1.2> 17,837	< 1.3> 22,508	< 1.5> 28,738	%ポイント + 0.3 + 85.1%
(15) (参考)	(16) 債券投資回転率	(17) 1.24	1.40	1.77	2.04	(17) 1/年 + 0.80

- (注) 1. < >内は、総取引高ないしは総残高に占めるシェア。  
 (18) 2. 債券保有残高は、対内証券投資(公社債・受益証券)のネット取得額(「大蔵省証券金融局年報」)を過去10年にわたり累積して作成。  
 3. 債券売買総額は、日本証券業協会調べ。  
 4. 持株数は、株式所有者別調(全国証券取引所協議会)による。  
 5. 株式売買総額は、「大蔵省証券金融局年報」による。  
 6. 円建外債発行残高は、公社債引受協会調べ。  
 7. 債券投資回転率=年間債券売買総額/債券保有残高。

Key:

- Unit: 100 million yen; percentage figure in ( )
  - Amplitude of change over 1979-82
  - Investment
  - Bonds
  - Balance of bonds held (year-end)
  - 2.2 times
  - Total of bond sales (midyear)
  - % points
  - Stocks
  - Number of shares held (year-end)
  - Million shares
  - Total amount of stock sales (midyear)
  - Fundraising
  - Balance of foreign bond floated in yen (year-end)
  - Reference
  - Rate of turnover of investment
  - Times/year
18. Notes: 1. Figures represent the percentage of total transaction or total balance. 2. Balance of bonds held was obtained from the net acquisition sum of investment in domestic securities (public corporation bonds, negotiable securities) ("Annual Report of the International Finance Bureau, Ministry of Finance") accumulated over the past 10 years. 3. Total amount of bond sales was based on data published by the Japanese Association of Securities Dealers. 4. Number of shares held was based on data on individual stockholders (Nationwide Securities Exchange Conference). 5. Total amount of stock sales was based on the "Annual Report of the International Finance Bureau, Ministry of Finance," 6. Balance of foreign bonds floated in yen was based on data published by the Association of Public Corporation Bond Acceptors. 7. Rate of turnover of investment in bonds = total amount of annual bond sales/balance of bonds held.



Table 4. Long-Term Foreign Trade and Fundraising and Investment in Foreign Currency Undertaken by Residents

(第4表)

居住者による長期の対外取引および外貨での運用・調達

(1) (単位: 億円、( ) 内はドル)

	54年 1979	55 1980	56 1981	57 1982	(2) 54年→57年 変化幅
(4) 民間部門の 対外証券投資残高 (年末)	39,140 ( 190.0)	51,885 ( 214.4)	66,234 ( 315.4)	...	(5) (54年→56年) + 69.2% (+ 66.0%)
(6) 民間部門の 長期資産残高 (年末)	121,503 ( 589.8)	152,642 ( 630.8)	179,718 ( 855.8)	...	(5) (54年→56年) + 47.9% (+ 45.1%)
(8) 外債発行残高 (年末)	23,922	27,439	21,847	32,584	+ 36.2%
(9) 中長期インパクト・ ローン残高 (年末)	12,010 ( 58.3)	19,917 ( 82.3)	14,028 ( 66.8)	19,922 ( 85.5)	+ 65.9% (+ 46.7%)
(10) 参考 対外証券投資 回	(11) 対外証券投資 回	(12) 回/年 0.75	1.29	0.46	(5) (54年→56年) (12) 回/年 ▲ 0.29

(注) 1. 民間部門の対外証券投資残高、対外長期資産残高は、「本邦対外資産・負債残高」(大蔵省)による。

(13)

2. 中長期インパクト・ローン残高は、「大蔵省国際金融局年報」による。

3. 外債発行残高は、日本銀行「資金循環勘定」による。

4. 対外証券投資回転率 = 年間対外証券投資総取引額 / 対外証券投資残高。対外証券投資総取引額については「大蔵省国際金融局年報」による。

5. 外国為替基準相場にて円換算。

Key:

- Unit: 100 million yen; figures in \$100 million in ( )
- Amplitude of change over 1979-82
- Investment
- Balance of investment in foreign securities held by private sector (year-end)
- 1979-81
- Balance of long-term assets held by private sector (year-end)
- Fundraising
- Balance of foreign bonds floated (year-end)
- Balance of medium- and long-term impact loans
- Reference
- Rate of turnover of investment in foreign securities
- Times/year
- Notes: 1. Figures concerning balance of investment in foreign securities and balance of long-term assets held by private sector were based on data from the "Balance of Foreign Assets and Bonds Held by Japan" (Ministry of Finance). 2. Balance of medium- and long-term impact loans was based on the "annual Report of the International Finance Bureau, Ministry of Finance." 3. Balance of foreign bonds floated was based on "Capital Circulation Account" published by the Bank of Japan. 4. Rate of turnover of investment in foreign securities = total amount of annual investment transactions in foreign securities/balance of investment in foreign securities. Total amount of investment transactions in foreign securities was based on the "Annual Report of the International Finance Bureau, Ministry of Finance." 5. Converted into yen according to the foreign exchange base rate.



(Internationalization of Fundraising and Investment Undertaken by Enterprises and Financial Organizations)

As a result of increased activity in domestic and foreign capital movements, the weight of assets and debts in foreign currency on the balancesheet of Japan's enterprises and financial organizations, which constitute the core or the medium of activities, has increased. That is, according to the "capital circulation computation table" of the Bank of Japan, the composition of various ways of fund raising and investment undertaken by Japan's enterprises (excluding trade financing, Table 5) on the side of fundraising showed a rise in the weight

Table 5. Internationalization of the Fundraising and Investment Undertaken by the Enterprise Section of Corporations

(第5表)

法人企業部門の資金調達・運用構造の国際化

		(1) (年間増加額・構成比, %)				
		(2) 50~53年平均	1979 <sup>54</sup> 年	1980 <sup>55</sup>	1981 <sup>56</sup>	1982 <sup>57</sup>
(3) 調達	(4) 円による調達	96.7	96.1	92.2	87.8	87.7
	(5) 外貨による調達	3.3	3.9	7.8	12.2	12.3
	(6) インパクト・ローン	1.5	0.7	5.9	9.9	7.8
(8) 運用	(7) 外貨・D R	1.8	3.2	1.9	2.3	4.5
	(9) 円による運用	99.2	96.1	88.8	96.3	88.9
	(10) 外貨による運用	0.8	3.9	11.2	3.7	11.1

(注) 1. 日本銀行「経済統計年報」、同「資金循環勘定応用表」、「大蔵省国際金融局年報」等から試算  
(11) (第6表も同様)。インパクト・ローン、D R (海外預託証券) 等については為替レート (直物、中心、年中平均) にて円換算。

2. 「外貨による調達」とはインパクト・ローン、外貨借付およびD R 発行の計。「外貨による運用」とは外貨預金、外貨債の計。

Key:

1. Annual increase composition ratio, %
2. Average over 1975-78
3. Fundraising
4. Funds raised in yen
5. Funds raised in foreign currency
6. Impact loan as part of (5)
7. Foreign currency DR
8. Investment
9. Investment in yen
10. Investment in foreign currency
11. Notes: 1. Figures were obtained from trial calculation using data taken from "Annual Report on Economic Statistics" and "Capital Circulation Computation Application Table" published by the Bank of Japan and the "Annual Report of the International Finance Bureau, Ministry of Finance" (Table 6 likewise). Impact loans and DR (foreign securities deposits) were converted into yen according to the rate of exchange (spot, central, midyear average). 2. Funds raised in foreign currency represent the sum of impact loans, foreign bonds floated and DR floated. "Investment in foreign currency" represents the sum of foreign currency deposits and foreign currency bonds.

of funds raised in foreign currency centered around secured impact loans, and this weight has exceeded 10 percent of the total funds raised in recent years (from an average of 3.3 percent during 1975-78 to 12.3 percent in 1982). On the side of investment, although there was considerable fluctuation, the overall trend reflected the enterprises' heightened sense of selecting a favorable interest rate with an increase in investment in foreign currency centered around foreign currency deposits, and its weight likewise exceeded 10 percent of the total investment (from an average of 018 percent during 1975-78 to 11.1 percent in 1982).

On the other hand, fundraising and investment in foreign currency undertaken by financial organizations (banks nationwide, domestic office base) (Table 6) has shown a decrease since 1980, due in part to the fact that loan transactions concluded overseas are changed to the name of the local office, taking advantage of the opportunity to apply the reserve rate toward debt in foreign currency. However, a comparison of the situations in 1975 and recently reveals, on the side of fundraising, significant increases in foreign currency deposits and securing of dollar call (the weight of funds raised in foreign currency increased from an average of 6.2 percent during 1975-78 to 22.3 percent in 1982), and on the side of investment, increases in impact loans, acquisition of foreign currency debts, and release of dollar call (ditto, from an average of 4.0 percent during 1975-78 to 25.6 percent in 1982).

## 2. Domestic and Foreign Capital Movements and Their Effect on Long- and Short-Term Domestic Interest rates

The increased activity in domestic and foreign capital movements described briefly above have naturally had an influence on Japan's interest and exchange rates. Although complicated relationships inevitably exist between domestic and foreign capital movements on the domestic interest rate will be investigated first. In this instance, the impact on the domestic interest rate made by long-term capital movement and short-term capital movement differs in character, so the decisive factors of capital movement and their impact on the domestic interest rate will be investigated separately. However, it should be kept in mind that long-term capital movement is almost always on an uncovered basis, because a long-term forward exchange reservation cannot be realized easily, and, on the other hand, short-term capital movement is usually on a covered basis from the standpoint of avoiding exchange risk (Note 1).

(Note 1) The long-term capital movement referred to in the analysis of this article includes investment in domestic and foreign common bonds, foreign debt, foreign debt in yen, syndicate loans in yen, and medium- and long-term impact loans. The short-term capital movement includes spot and forward, short-term impact loans, and foreign currency deposits held by residents.

### (Background of Long-Term Capital Movement)

The changes in long-term capital movement in recent years showed a significant net inflow in 1980, due in part to increased investment in domestic bonds, and since 1981, a steady outflow due mainly to increased investment in foreign bonds and the issuance of foreign bonds in yen (Figure 1).

Table 6. Internationalization of Fundraising and Investment of Financial Organizations

(第6表)

金融機関の資金調達・運用構造の国際化

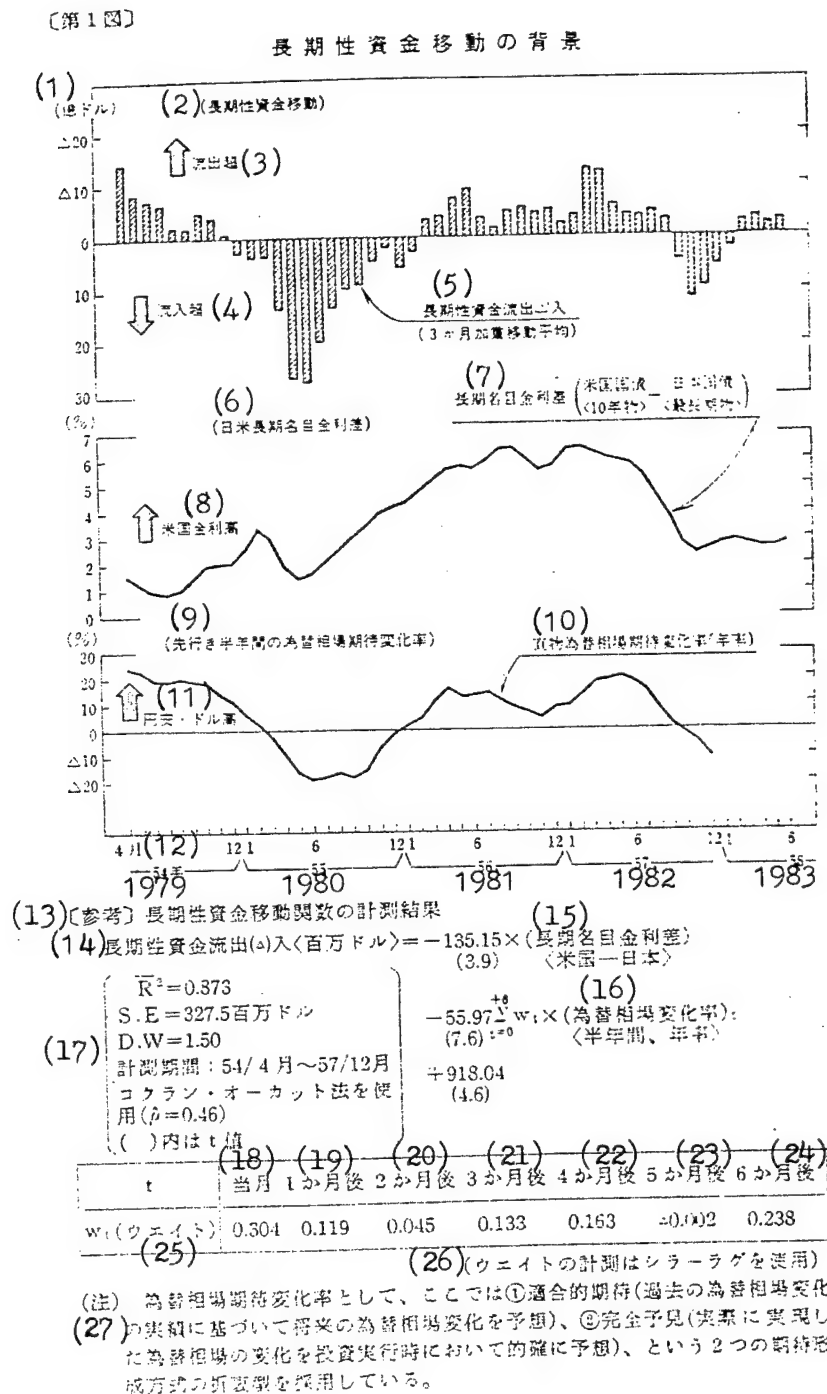
		(2)		(1) 年別増減率・構成比、%		
		50~53年平均	1979 <sup>54</sup> 年	1980 <sup>55</sup>	1981 <sup>56</sup>	1982 <sup>57</sup>
(3) 調達	(4) 円による調達	93.8	72.9	48.2	64.1	77.7
	(5) 非居住者円預金	1.9	▲ 5.8	4.2	0.7	0.4
	(6) 外貨による調達	6.2	27.1	51.8	35.9	22.3
	(7) 外貨預金	2.1	4.1	12.5	5.6	5.3
	(8) ドル・コール取入	▲ 0.1	4.7	4.1	8.4	10.4
(9) 運用	(10) 円による運用	96.0	80.2	59.5	67.5	74.4
	(11) 外貨による運用	4.0	19.8	40.5	32.5	25.6
	(12) インパクト・ローン	▲ 0.1	0.4	4.4	9.6	6.9
	(13) ドル・コール放出	0.3	1.2	7.9	9.5	10.0

- (注) 1. 全国銀行の国内店を対象。  
 (14) 2. 「外貨による調達」とは、外貨預金、ドル・コール取入、貿易信用見合い外貨取入等の計。「外貨による運用」とは、インパクト・ローン、ドル・コール放出、外国有価証券保有、非居住者貸付、貿易信用等の計。

Key:

1. Annual increase composition ratio, %
2. Average over 1975-78
3. Fundraising
4. Funds raised in yen
5. Deposits in yen held by nonresidents as part of (4)
6. Funds raised in foreign currency
7. Deposits in foreign currency as part of (6)
8. Dollar call acquisition
9. Investment
10. Investment in yen
11. Investment in foreign currency
12. Impact loans as part of (11)
13. Dollar call release
14. Notes: Domestic offices of nationwide banks were the subject of study.  
 2. "Funds raised in foreign currency" represents the sum of foreign currency deposits, dollar call acquisition, and trade balance foreign currency acquisition. "Investment in foreign currency" represents the sum of impact loans, dollar call release, foreign negotiable securities holdings, nonresident loans, and trade credits.

Figure 1. Background of long-term capital movement.



Key:

1. \$100 million
2. Long-term capital movement
3. Net outflow
4. Net inflow

5. Long-term capital outflow ( $\Delta$ ) and inflow (average of weighted movement over a 3-month period)
6. Long-term nominal interest differential between Japan and the United States
7. Long-term nominal interest differential (U.S. national bond (10-year maturity) - Japanese national bond (longest maturity))
8. Higher U.S. interest rate
9. Expected rate of change in exchange rate in the next 6 months
10. Expected rate of change in spot exchange rate (annual rate)
11. Cheap yen, expensive dollar
12. Month
13. Reference: Results of computation of long-term capital movement correlation coefficient
14. Long-term capital outflow ( $\Delta$ )/inflow (\$million)
15. (Long-term nominal interest differential) (United States - Japan)
16. (Rate of change of exchange rate) (6-month, annual rate)
17. S.E. = \$327.5 million; omputation period: April 1979-December 1982; (Cochran-Orcut method ( $\hat{\rho} = 0.46$ ) was used. Figures in ( ) represent 5 values.
18. Present month
19. 1 month later
20. 2 months later
21. 3 months later
22. 4 months later
23. 5 months later
24. 6 months later
25. Weight
26. Weight was calculated by Schiller lag method
27. Note: For the expected rate of change of exchange rate, a compromise between the following two methods of prediction was used: 1) compatible expectation (predicting the change in the future rate of exchange based on the actual changes in the past rate of exchange), and 2) complete forecast (accurately predicting the change in the rate of exchange at the time the investment is made).

Long-term capital movement is almost always considered on an uncovered basis, and investment is made in either domestic or foreign long-term assets, whichever is more advantageous. The expected earnings rate differential between domestic and foreign long-term financial assets is the indicator of the relative advantage of the two, and this expected earnings rate differential can be subdivided into the following two factors: 1) the nominal interest differential between domestic and foreign financial assets during the investment period (interest rate factor), and 2) the expected rate of change in the exchange rate during the same period, which is an indicator of the gain or loss due to the exchange rate differential (exchange rate factor). Let us look at the difference in the long-term nominal interest rates of Japan and the United States (the yield of the 10-year U.S. bond - the yield of the 10-year Japanese bond, along with the ultimate yield with compound interest in both cases) (Note 2) as an index of the interest rate factor. This difference widened rapidly over the 1981-1982 period, and it is considered the basic background of a trend of net outflow of long-term capital since 1981. Let us consider the exchange rate factor next. According to a trial computation of the expected rate of change in the yen rate in the next 6 months, corresponding to the average investment period of domestic bonds held by nonresidents (as described before), the trend consists of expensive yen in 1980 and cheaper yen over the period 1981-82, indicating a close correlation between it and the long-term capital movement.

(Note 2) Strictly speaking, the interest rate factor that corresponds to the long-term capital movement is not the long-term domestic and foreign interest differential, but the difference in the yields of domestic and foreign financial assets over the period these assets are held, which are determined by the changes in the price of assets during the investment period. However, it is difficult to actually calculate the difference in yields during the investment period, so the domestic and foreign long-run interest differential is used here for the sake of convenience.

For the purpose of ascertaining the points described above, long-term capital movement was computed using a recurrence formula containing 1) the long-term nominal interest differential between Japan and the United States and 2) the expected rate of change in the yen rate in the next 6 months as parameters (computation period: April 1979-December 1982), and a very good results was obtained. It can be concluded from this that long-term capital movement can be explained to a large extent by these factors (refer to Figure 1).

#### (Effects of Foreign Factors on the Domestic Long-Term Interest Rate)

So far, we have discussed the decisive factors affecting long-term capital movement assuming that the long-term domestic and foreign interest rates are given. In reality, however, the long-term domestic interest rate is affected by the change in the long-term foreign investment rate and the inflow and outflow of long-term capital induced by this change. This aspect, how foreign factors influence the decision of the long-term domestic interest rate, will

be investigated next using the yield of long-term national bonds in circulation, which is representative of Japan's long-term interest rate, as an example.

The mechanism by which the yield of long-term national bonds in circulation is decided includes the following domestic factors: 1) the short-term domestic interest rate and its future expectation, 2) supply and demand of the long-term domestic bond market, and 3) the "direct interest directivity" peculiar to Japan's bond market (Note 3). On the other hand, the foreign factors include, first of all, a route through which the long-term domestic interest rate is affected by the changes in supply and demand of the long-term domestic bond market caused by the long-term capital inflow and outflow. Of course, as already mentioned, so-called "long-term capital" also includes funds with a relatively short turnover time. However, as long as the object of investment remains a long-term bond, the inflow and outflow of long-term capital are expected to have a direct impact on the supply and demand of the long-term domestic bond market. To ascertain this point, the yield of Japan's long-term national bonds in circulation was computed using a recurrence formula containing the three domestic factors and the inflow and outflow of bond investment (the sum of domestic and foreign common bond investment, foreign bonds in yen, and the amount of floated foreign bonds) as parameters (computation period: April 1977-March 1983). The results obtained from this computation indicated a significant correlation between the long-term domestic interest rate and the amount of bond investment inflow and outflow (Note 4), and the correlation was found to be stronger since 1979, when activity in the domestic and foreign capital movements picked up (Figure 2, Table 7(2)). This suggests that foreign capital inflow and outflow become active with a rising long-term foreign interest rate, which, in turn, contributes to the rise in the long-term domestic interest rate.

(Note 3) Refer to "Characteristics of Changes in Interest Rate in the Recent Relaxed Financial Situation" (April 1983 issue of CHOSA GEPPU) for the decisive factors affecting the yield of Japan's long-term national bonds in circulation.

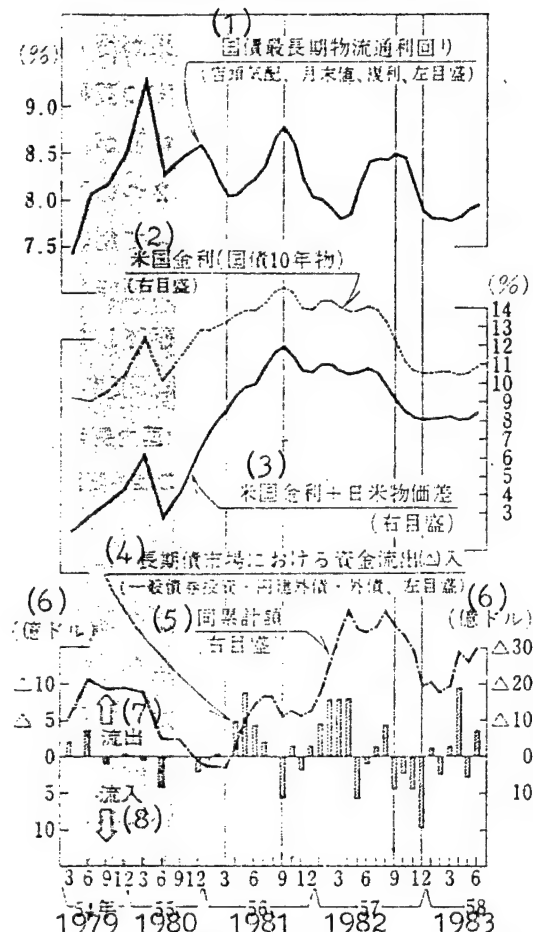
(Note 4) Better computational results were obtained from the use of the cumulative sum (starting April 1977), instead of the monthly flow, of the amount of inflow and outflow of bond investment.

However, it is quite possible that a direct propagative relationship exists between the long-term foreign interest rate and the long-term domestic interest rate, even when the inflow and outflow of domestic and foreign capital do not actually take place. That is, a change in the long-term foreign interest rate causes a change in the desire to hold onto domestic and foreign bonds by domestic and foreign investors. This is the process by which a change in the long-term domestic interest rate of the spot exchange rate is brought about directly (Note 5). To recover equilibrium after a change in long-term foreign interest rate has taken place, the long-term domestic and foreign interest differential (final yields) must again become equal to the expected rate of change in the exchange rate during the remaining period (Note 6). However, even if there is a significant change in the spot exchange rate, the expected

Figure 2. Relationship between long-term domestic interest rate and foreign factors.

〔第2図〕

国内長期金利と海外要因の関係



Key:

1. Yield of longest maturity bond (counterindication, end of month value, compound interest, left scale)
2. U.S. interest rate (10-year maturity) (right scale)
3. U.S. interest rate + U.S.-Japanese price differential (right scale)
4. Capital outflow ( )/inflow in long-term bond market (common bonds investment, foreign bonds in yen, foreign bonds, left scale)
5. Ditto, cumulative value (right scale)
6. \$100 million
7. Outflow
8. Inflow
9. Notes: 1. U.S.-Japanese price differential = rate of increase in GNP deflator during 1 year period in the future. 2. Shaded portion represents tight-money period. 3. Figures concerning capital outflow/inflow in long-term bond market for 1979 and 1980 represent monthly average values. Cumulative value represents accumulation since April 1977. 4. All interest rates represent 3-month weighted movement average value.

rate of change in the long-term exchange rate does not change appreciably (Note 7), so a larger portion of the change in the long-term foreign interest rate is highly likely to affect the long-term domestic interest rate.

(Note 5) Of course, even in this instance, it is highly probable that domestic and foreign capital movements may take place. However, unlike the previous case, the amount



of capital inflow/outflow, the long-term domestic interest rate, and the spot exchange rate are all determined simultaneously.

(Note 6) To visualize the equilibrium relationship between long-term domestic and foreign interest rates: a state of equilibrium exists between the interest rate (final yield) of long-term domestic and foreign financial assets with an equal remaining period and the expected rate of change in the exchange rate of these assets during the remaining period represented by the following equation:

$$\begin{aligned} \text{Long-term domestic interest rate} &= \text{long-term foreign interest rate} + \text{expected rate of change in the exchange rate} \\ &\text{during the remaining period} \end{aligned} \quad (A)$$

This equation should be satisfied for all remaining periods, so if the domestic yield curve and the foreign yield curve are compared on the basis of their maturity date, the difference at each maturity date becomes equal to the expected rate of change in the exchange rate for the corresponding period. When the impact of a rise in the long-term foreign interest rate of the long-term domestic interest rate is considered on the basis of this equation, the level of expected exchange rate of the long-term financial assets at the time of maturity may be assumed to be determined to a larger extent by the purchasing power parity and less by the short-term changes in the long-term interest rate, so to restore the equilibrium, either one or both of the following two events must take place: 1) a rise in the expected rate of change in the exchange rate resulting from cheap yen in the exchange rate today to an expected expensive yen in the future; 2) a rise in the long-term domestic interest rate. 2) a rise in the long-term domestic interest rate. However, regarding matters related to 1) the amplitude of change in the exchange rate today that is necessary to bring about a rise in the fixed expected rate of change in the exchange rate (annual rate) is known to expand for a longer period than now. Therefore, an amplitude of change in the spot exchange rate which can satisfy the equation (A) at every point of the yield curve simply does not exist, so the occurrence of 2) rather than 1), or a rise in the long-term domestic interest rate, is considered more likely.

(Note 7) For example, let us assume that the expected value of the exchange rate 10 years hence remains the same as the exchange rate today, e.g., on the order of 240 yen; then to be able to completely absorb a rise of 1 percent in the long-term foreign interest rate (10-year period) by a drop of 1 percent in the expected rate of change in the exchange rate (annual rate), the spot market price today must produce cheap yen on the order of 265 yen. On the other hand, to be able to absorb

a rise of 1 percent in the interest rate over a 5-year period, cheap yen on the order of 252 yen will be sufficient.

Incidentally, when the long-term interest rate of the United States (the yield of the 10-year national bond after adjustment for the difference in the expected inflation rates of Japan and the United States (Note 8), Figure 2), instead of the amount of inflow and outflow of investment in bonds, was used as the foreign factor in the equation and the yield of Japan's long-term national bonds in circulation was recalculated, the result thus obtained was stronger in elucidative power than one obtainable from use of the amount of inflow and outflow of investment in bonds as the elucidative variable (Table 7 (1)). This suggests that the long-term domestic interest rate is affected not only by the long-term domestic and foreign capital movements that accompany the changes in the long-term foreign interest rate, but also directly by the changes in the long-term foreign interest rate itself.

(Note 8) The difference in the expected inflation rates of Japan and the United States is used as a substitute variable for the expected rate of change in the exchange rate.

Finally, let us evaluate quantitatively the magnitude of the impact of the long-term foreign interest rate on the long-term domestic interest rate, keeping in mind the above discussion. The key factors contributing to the changes in the long-term domestic interest rate were analyzed using the recurrence formula shown in Table 7 (1). It became clear from this analysis (Figure 3) that: 1) in the current relaxed financial situation, the high long-term interest rate of the United States remained over an extended period of time as a key factor which directly and indirectly contributed to the rise in the yield of Japan's long-term national bonds in circulation, and 2) the upturn in the yield of national bonds during the first half of 1981, in particular, was largely due to the rising long-term interest rate of the United States (of the rise of 0.9 percent points in the yield of long-term national bonds in circulation from the end of March to the end of September 1981, 0.5 percent was due to the long-term interest rate of the United States).

From the results of these computations, it became clear that the yield of Japan's long-term national bonds in circulation was affected not only by domestic factors (Note 9), such as the movement in the short-term domestic interest rate and the impact of floating a large quantity of national bonds, but also by foreign factors such as the long-term foreign interest rate and the inflow and outflow of long-term foreign capital.

(Note 9) For example, the upturn in the yield during 1982 was due most strongly to the deteriorating supply and demand situation of the market as a result of the floating of a large quantity of national bonds (refer to "Characteristics of Changes in Interest Rate in the Recent Relaxed Financial Situation" (April 1983 issue of CHOSA GEPP0)).

## 7. Calculated Results of Correlation Coefficient of Yield of Long-Term National Bonds in Circulation

(第7表)

(1) 長期国債流通利回り関数の計測結果

① 海外長期金利を説明変数とする関数式

$$\begin{aligned} \text{長期債流通利回り} &= 0.256 \times (\text{現先レート}) + 0.169 \times \sum_{i=1}^9 w_{1-i} (\text{現先レート})_{-i} \\ &\quad - 0.679 \times (\text{クーポンレート}) + 1.18 \times (\text{都銀債券売却圧力}) \end{aligned}$$

(9)  $\bar{R}^2=0.897$   
D.W=1.02  
計測期間  
52/4月~58/3月  
( )内はt値

$$\begin{aligned} &+ 0.069 \times \{ (\text{米国金利}) + (\text{日本GNPデフレーター} - \text{米GNPデフレーター}) \} + 0.0116 \times \{ \text{同左} \} \\ &\quad - 0.025 \times (\text{累積経常収支}) + 9.205 \end{aligned}$$

t	1	2	3	4	5	6	7	8	9
$w_{1-i}$	0.56	0.13	-0.16	-0.26	-0.18	0.03	0.26	0.35	0.27

(12)

② 長期資金流入を説明変数とする関数式

$$\begin{aligned} \text{長期債流通利回り} &= 0.315 \times (\text{現先レート}) + 0.130 \times \sum_{i=1}^9 w_{2-i} (\text{現先レート})_{-i} \\ &\quad - 0.241 \times (\text{クーポンレート}) + 0.668 \times (\text{都銀債券売却圧力}) \end{aligned}$$

(9)  $\bar{R}^2=0.836$   
D.W=0.73  
計測期間  
52/4月~58/3月  
( )内はt値

$$\begin{aligned} &- 0.155 \times (\text{債券投資流出(Δ)入累計額}) - 0.200 \times (\text{同左}) \\ &\quad + 6.076 \end{aligned}$$

t	1	2	3	4	5	6	7	8	9
$w_{2-i}$	0.15	-0.10	-0.26	-0.29	-0.21	0.04	0.40	0.64	0.62

(13) ラーラ格を使用

- (注) 1. 国内長期債券市場の需給要因を示す代理変数として、ここでは都銀の債券売却圧力を用いている。なお、都銀の債券売却圧力は具体的には貸出および有価証券(売却前)の前月比伸び率が資金量の伸び率を上回った部分(対資金量比率、季調後、5ヵ月加重移動平均)として計算。
2. わが国では金融機関を中心とする投資家の買利志向(債券買入れ価格に対するクーポン収入の比率を重視する傾向)によって、クーポンレートが低いと流通利回りが高くなる傾向があり、これを調整するためクーポンレートを説明変数に採用。
3. 長期債流通利回りは国債最長期物(月末、複利)、米国金利は10年物国債、現先は3ヵ月物を使用。

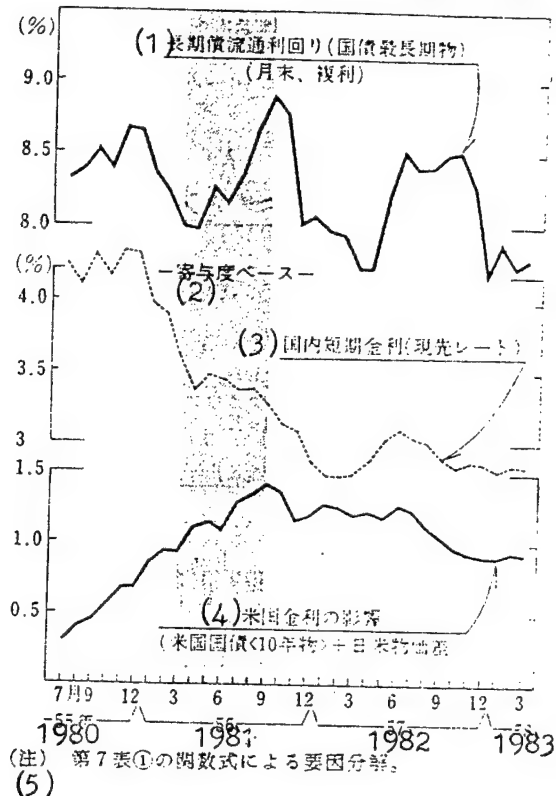
Key:

1. Correlation equation with long-term foreign interest rate as the elucidative variable
2. Yield of long-term national bonds in circulation
3. Spot and forward rate
4. Coupon rate
5. Pressure on National Bank to sell bonds
6. U.S. interest rate
7. Japanese GNP deflator
8. U.S. GNP deflator
9. Computation period: April 1977-March 1983; figures in ( ) represent t values
10. Ditto left
11. Cumulative regular income and payment
12. Correlation equation with long-term capital outflow/inflow as the elucidative variable
13. Using Schiller lag
14. Cumulative sum of outflow ( $\Delta$ )/inflow of investment in bonds.
15. Notes: 1. Pressure on the National Bank to sell bonds was used here as a representative variable indicating the demand and supply factor of the long-term domestic bond market. Pressure on the National Bank to sell bonds was determined as the difference between the growth rate of the previous month ratio of loans and negotiable securities (before selling) and the growth rate of the volume of capital (ratio of the volume of capital, after seasonal adjustment, weighted movement average over 15 months). 2. In Japan, circulation yield tends to be high when the coupon rate is low due to the direct profit inclination (tendency to attach importance to the ratio of coupon income of the bond buying price) of the investors, consisting mainly of financial organizations. The coupon rate was therefore included as an elucidative variable for the purpose of making an adjustment for it. 3. The yield of long-term bonds in circulation was presented by that of the longest maturity national bond (end of month, compound interest). The U.S. interest rate represented that of the 10-year national bond, while spot and forward rates were based on a 3-month period.

Figure 3. Degree of contribution to the yield of long-term national bonds in circulation made by the long-term foreign interest rate.

〔第3図〕

長期国債流通利回りに対する海外長期金利の寄与度



Key:

1. Yield of long-term bonds in circulation (longest maturity national bond) (end of month, compound interest)
2. Degree of contribution base
3. Short-term domestic interest rate (spot and forward rate)
4. Influence of U.S. interest rate (U.S. bond (10-year) + U.S.-Japanese price differential)
5. Note: Factor analysis based on the correlation equation shown in Table 7(1).

(Relationship Between Short-Term Capital Movement and Short-term Domestic and Foreign Interest Rates]

We have completed the investigation of long-term capital movement; let us investigate next the correlation between short-term capital movement and short-term domestic and foreign interest rates.

As mentioned before, short-term capital movement is usually on a covered basis. However, it is also known that the following equilibrium relationship (covered interest parity equation) is satisfied in the foreign exchange market for transactions with interest arbitrage.

Short-term domestic interest rate

= short-term foreign interest rate + spot and forward exchange spread (B)

To investigate whether such a relationship holds in Japan, the relationship between Japan's short-term interest rate (spot and forward rate and bill rate, all for a 3-month period) and the short-term foreign interest rate (Eurorate, 3-month period) as well as the spot and forward spread of the Tokyo market was studied, and the results are as shown in Figure 4. According to the data contained in Figure 4, since the second period of 1979 when the restrictions on spot and forward transactions undertaken by nonresidents were relaxed, the domestic and foreign interest differential after adjustment for spot and forward spread has remained in the neighborhood of zero except for a small portion of the period, so the above interest rate parity formula may be considered to have held consistently in Japan in recent years (Note 10).

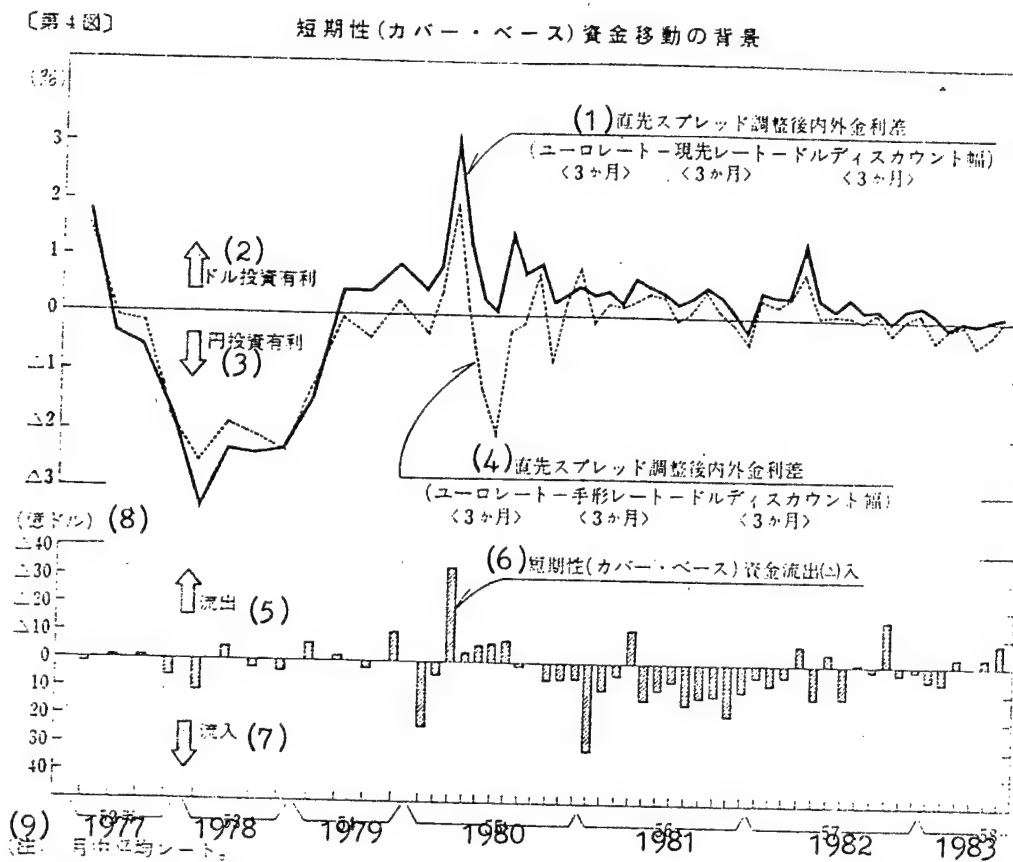
(Note 10). However, a closer inspection reveals periods in which a fairly large deviation from the interest rate parity persisted, such as from March to April and from July to September of 1980 and from March to April of 1982. This deviation is considered attributable to the following two causes: 1) when the outlook for the exchange rate leans in one direction, a longer time is needed to make adjustment for the spot and forward spread, and 2) interest arbitrage transactions cannot occur smoothly due to the existence of restrictions on yen conversion or to the stringent yen capital financing.

(Effects of Foreign Factors on the Domestic Short-Term Interest Rate)

We have seen so far that the long-term domestic rate is significantly affected by the long-term capital movement and the long-term foreign interest rate. Now then, do similar relationships exist for short-term capital?

First of all, let us investigate the influence of inflow and outflow of short-term capital on the supply and demand of the short-term money market. To be sure, short-term capital movement itself must have some influence on the supply and demand of the short-term money market. However, this influence, as long as the central bank stays out of this market, tends to be cancelled out by the

Figure 4. Background of short-term (covered) capital movement.



Key:

1. Domestic-foreign interest differential after making adjustment for spot and forward spread (Eurorate-spot and forward rate-dollar discount breadth, all for a 3-month period)
2. Favorable for investment in dollars
3. Favorable for investment in yen
4. Domestic-foreign interest differential after making adjustment for spot and forward spread (Eurorate-bill rate-dollar discount breadth, all for a 3-month period)
5. Outflow
6. Short-term (covered) capital outflow (△)/inflow
7. Inflow
8. \$100 million
9. Note: midmonth average rate

supply and demand for capital induced by other factors, and the overall fluidity position (the state of over or under supply of the reserve deposit) of banking circles will hardly be affected (Note 11).

(Note 11) This point can be explained clearly by the supply and demand equilibrium equation for the spot and forward exchange market ( $\Delta$  signifies sales in dollars).

(Spot Market)

Net in/outflow ( $\Delta$ ) of uncovered capital + net in/outflow ( $\Delta$ ) of covered capital + balance of regular transaction receipts ( $\Delta$ ) and payments settlement + excess spot buying/selling ( $\Delta$ ) of dollar by exchange banks + market buying/selling ( $\Delta$ ) interference by the central bank = 0

(Forward Market)

Balance of import/export ( $\Delta$ ) reservation + overseas yen forward selling/buying ( $\Delta$ ) position + net in/outflow ( $\Delta$ ) of covered capital + excess forward buying/selling ( $\Delta$ ) in dollar by exchange banks = 0 (C)

Moreover, if combined spot and forward position of exchange banks is assumed, then exchange banks' excess dollar spot buying (selling) = excess forward selling (buying).

For example, consider the case of inflow (outflow) of short-term covered capital. According to the supply and demand equilibrium formula for the spot and forward exchange market in equation (C), one (or a combination of more than one) of the following four items must be in balance: (a) outflow (inflow) of uncovered capital, (b) balance of regular excess payment (receipt) settlement, (c) increase in yen investment (yen conversion) by exchange banks, and (d) interference in market buying (selling) by the central bank. In the case in which item (d) is in balance, both the yen deposit and the reserve deposit (high-powered money) of banking circles must increase (decrease) by the amount of inflow (outflow) of short-term capital, so the fluidity position of banking circles tends to be one of reserve surplus (deficiency) even if the necessary increase (decrease) in the amount of reserve that accompanies an increase (decrease) in yen deposit is taken into consideration. In contrast, in other cases in which items other than item (d) are in balance, the reserve deposit of banking circles will not change at all, while the yen deposit will not change in the cases in which items (a) and (b) are in balance, and only the amount of inflow (outflow) of short-term capital will increase (decrease) in the case in which item (c) is in balance. Therefore, the fluidity position of banking circles will not change in those



cases in which item (a) or item (b) is in balance, and will tend to be one of reserve deficit (surplus) by the amount of increase (decrease) in the necessary reserve that accompanies an increase (decrease) in yen deposit in the case in which item (c) is in balance. Moreover, the trends are the same if the short-term capital movement takes place on an uncovered base.

Thus, whether or not the fluidity position of banking circles changes in the end as a result of short-term capital movement is determined by whether or not the central bank intervenes in the market. For example, when the central bank intervenes in the market by buying, then the short-term interest rate will tend to drop due to a relaxed capital supply and demand. However, if the central bank does not intervene in the market, then an influence on the interest rate through this route probably will not exist.

Let us next consider the influence of the short-term foreign interest rate on the short-term domestic interest rate. In other words, the question is how the equilibrium relationship of short-term domestic and foreign interest rates represented by the covered interest rate parity formula as shown in equation (B) can be restored. In the case of the short-term interest rate, in contrast to the long-term interest rate, the short-term domestic interest rate hardly changes, and is considered in most cases to be absorbed by the changes in spot and forward exchange spread. This is because the short-term interest rate, as seen above, is not affected by the capital movement, on the one hand, while the changes in the foreign interest rate are absorbed by the changes in the expected rate of change in the exchange rate, on the other, so the necessary magnitude of change in the exchange rate is very small and a great probability exists that the changes in the short-term foreign interest rate can be absorbed by the change in the expected rate of change in the exchange rate (and the consequent change in the spot and forward spread) alone (Note 12).

(Note 12) Refer to equation (A) given in (Note 6). For example, when the interest rate on a 3-month bill has changed 1 percent, if the expected value of the exchange rate 3 months hence (= 3-month forward rate) is assumed not to change, then the change can be absorbed by yen that is approximately 60 sen cheaper (approximately 240 yen) in today's spot rate.

In summary, the short-term domestic interest rate, in comparison with the long-term interest rate, is characterized by the fact that it can behave quite independently of foreign factors including inflow and outflow of short-term capital and the movement of the short-term foreign interest rate. Incidentally, to verify the independence of the short-term domestic interest rate from foreign factors, the correlation coefficient between the short-term domestic interest rate (spot and forward rate and call rate) and the short-term foreign interest rate (Eurorate) or the amount of short-term capital flow (the sum of spot and forward exchange, deposits held by nonresidents, foreign currency deposits, short-term impact loans, etc.) was calculated. The results thus obtained indicated no close correlation, substantiating the conclusion reached above (Table 8).

Table 8. Correlation Between Short-Term Domestic Interest Rate and Foreign Factors

(第8表) 国内短期金利と海外要因との相関係数

	(1) 要 因		
	(2) 海 外 ユーロ・レート	(3) ユーロ・レート + 日米物価差	(4) 短期性資金流 出(入)差額
(5) ユーロ・レート (無条件)	0.14	0.18	△ 0.13
(6) 現先レート (3ヵ月)	0.13	0.21	△ 0.19

(7) 計算期間: 50/I ~ 57/IV

(注) 日米物価差はGNPデフレーター・ベース、先行

(8) き3ヵ月間の完全予見を仮定。

Key:

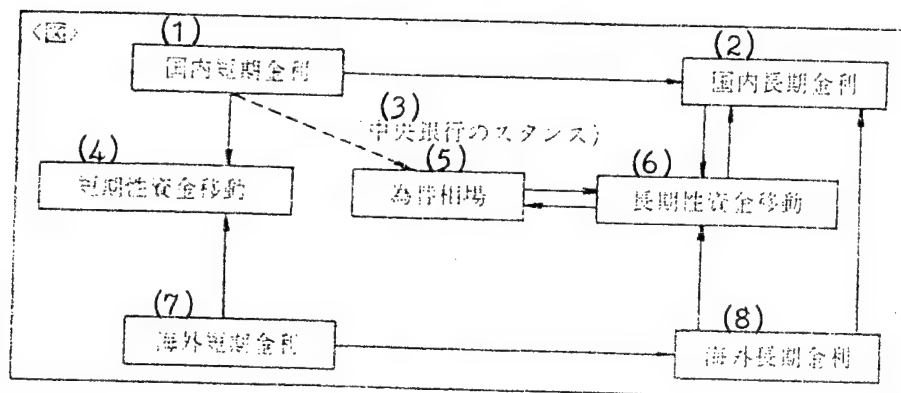
1. Foreign factors
2. Eurorate
3. Eurorate + U.S.-Japanese price differential
4. Cumulative sum of short-term capital outflow( $\Delta$ )/inflow
5. Call rate (unconditional)
6. Spot and forward rate (3-month)
7. Computation period: first quarter of 1975 through fourth quarter of 1982
8. U.S.-Japanese price differential is on GNP deflator basis, assuming complete foreknowledge of the future 3-month period.

### 3. Relationship Between the Exchange Rate and Domestic and Foreign Capital Movements

So far, we have discussed the key factors affecting domestic and foreign capital movements and the impact of changes in the foreign interest rate on the domestic interest rate and elucidated the important role played by the anticipated changes in the future rate of exchange in each instance. We shall now shift our attention to investigating the impact of domestic and foreign capital movements on the exchange rate (Note 13).

(Note 13) The interrelationship among long-term domestic and foreign capital movements, long-term/short-term domestic and foreign interest differential, and the exchange rate discussed in this article may be summarized as shown in the following diagram. In it, if the short-term domestic interest rate and the long-term/short-term foreign interest rate are considered given, then the three items--the long-term domestic interest rate, the long-term capital movement, and the exchange rate--are bound from the start by a relationship of simultaneous determination. Therefore, strictly speaking, this simultaneous determination relationship should be taken into

consideration in the investigation of the impact of long-term capital movement on the rate of exchange.



Key:

1. Short-term domestic interest rate
2. Long-term domestic interest rate
3. Central bank's stance
4. Short-term capital movement
5. Rate of exchange
6. Long-term capital movement
7. Short-term foreign interest rate
8. Long-term foreign interest rate

At this juncture, one must note that the impact of covered capital movement on the rate of exchange is significantly different from the impact of uncovered capital movement on the rate of exchange. Namely, in covered transactions, inflow (outflow) is determined by the spot-forward spread and the interest differential that existed in advance, so the amount of spot dollar supply (demand) and the amount of forward dollar demand (supply) are necessarily balanced. Therefore, although covered capital movement has a definite effect of equalizing the spot-forward spread and the interest differential, it is not considered to have any significant impact on the average level of the rate of exchange. In contrast, uncovered capital movement appears singly in the form of either a spot dollar demand (in the case of outflow) or a spot dollar supply (in the case of inflow), so it would exert direct pressure on the spot dollar rate, causing it to rise or fall.

However, as already discussed before, the core of the uncovered capital movement is the long-term capital movement which is affected largely by the long-term foreign and domestic interest differential. Therefore, the rate of exchange is directly affected mainly by the long-term capital movement, and as far as the relationship between domestic and foreign interest differential and the rate of exchange is concerned, the long-term interest differential has a much closer relationship than the short-term interest differential. To verify the reasonableness of this line of thought, the level of yen/dollar

rate (amplitude of deviation from purchasing power parity) was compared with the U.S.-Japanese long-term substantial interest differential (yield of Japan's longest maturity bond - yield of 10-year U.S. bond) and the short-term substantial interest differential (spot-forward rate (3-month maturity) - Eurorate (3-month maturity)) (Figure 5). It is evident, as shown in this illustration, that the changes in the rate of exchange can be elucidated much more clearly by the long-term interest differential than by the short-term interest differential. Moreover, the results obtained from a computation of the exchange rate correlation coefficient (Note 14) between the rate of exchange and three factors--purchasing power parity, cumulative regular income and expenditure, and domestic and foreign substantial interest differential--(Table (9) also indicated a greater impact due to long-term substantial interest differential. All these computational results show that the rate of exchange is directly affected by the uncovered (mainly long-term) capital movement, so we can conclude for the time being that the long-term interest rate has a greater impact on the rate of exchange.

(Note 14) Here, according to the portfolio balance approach, cumulative regular income and expenditure was used as a substitute variable for the risk premium that accompanies the holding of capital in foreign currency (assets in dollars held by Japanese investors and assets in yen held by American investors). Moreover, substantial interest rate was used as the interest rate because it is possible that the change in interest rate (substantial interest rate does not change) corresponding to the change in inflation rate can be absorbed by the change in the expected rate of change in the exchange rate without affecting the spot rate.

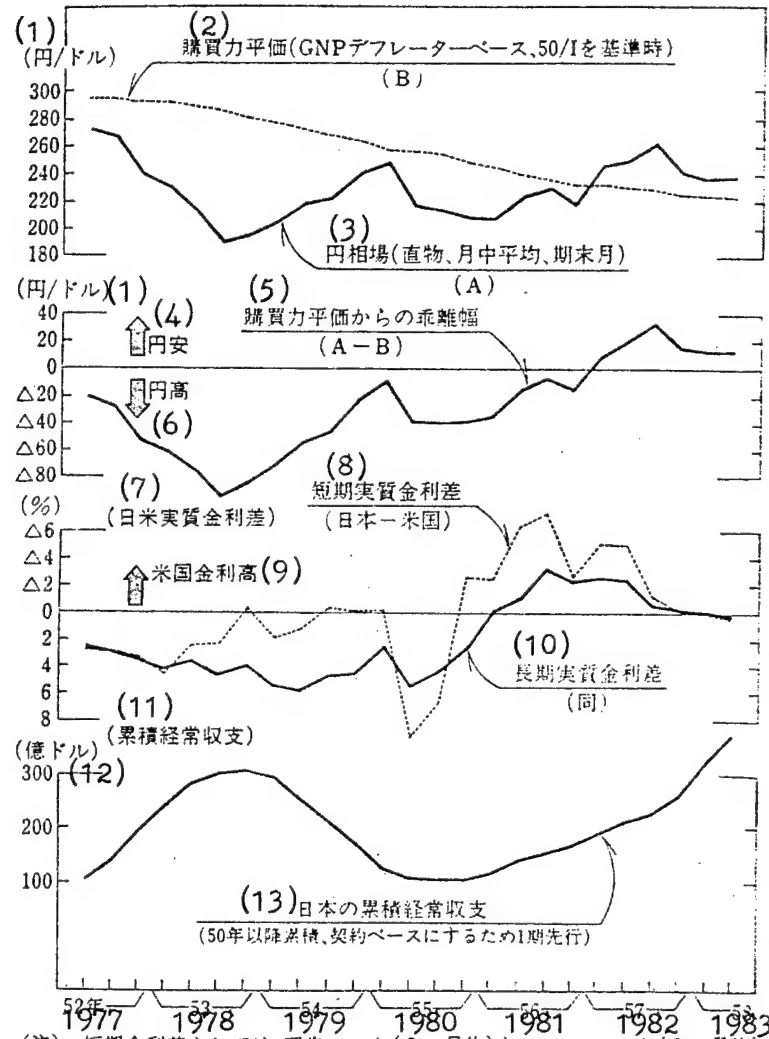
However, this analysis does not deny the influence of short-term domestic interest rate manipulation on the rate of exchange. In other words, short-term domestic interest rate manipulation will induce long-term (uncovered base) capital movement and also affect the rate of exchange (Note 15) for the following two reasons: 1) The short-term domestic interest rate level is traditionally the best indicator of the central bank's policy stance, and thus has little impact on the expectation of the future movement of the exchange rate. 2) The change in the short-term interest rate can have an impact on the long-term interest rate through interest arbitrage among the long-term/short-term domestic markets.

(Note 15) From the standpoint of computational technique, attention must be paid to the following two possibilities: 1) As far as the short-term interest rate is concerned, an inverse correlation between it and the rate of exchange may even exist thanks to the Bank of Japan, which engaged in short-term domestic interest rate manipulation while watching the movement of the exchange rate, and thus acts in the direction of decreasing the significance of the correlation between the rate of exchange and the short-term interest differential. This possibility cannot be completely ignored.

Figure 5. Relationship between domestic and foreign interest differential and the rate of exchange.

〔第5図〕

内外金利差と為替レートとの関係



(注) 短期金利差としては、現先レート(3ヵ月物)とユーロ・レート(3ヵ月物)の差、また長期金利差としては、日本の国債最長期物利回り(10年)と米国の国債最長期物利回り(10年)との差をそれぞれ採用。いずれも日米のGNPデフレーターの上昇率格差(先行き1年間の変化を完全予見するものと仮定)により実質化している。

Key:

1. Yen/dollar
2. Purchasing power parity (on GNP deflator basis, first quarter of 1975 as standard)
3. Yen rate (spot, midmonth average, end of term month)
4. Cheaper yen
5. Amplitude of deviation from purchasing power parity
6. Expensive yen
7. U.S.-Japanese substantive interest differential
8. Short-term substantive interest differential (Japanese - U.S.)
9. Higher U.S. interest rate
10. Long-term substantive interest differential (Japanese - U.S.)
11. Cumulative regular income and expenditure
12. \$100 million
13. Cumulative regular income and expenditure of Japan (cumulative value since 1975, one term in advance in order to be on a contract basis)
14. Note: The difference between spot and forward rate (3-month) and Eurorate (3-month) was used as the short-term interest differential, while the difference between the yield of Japan's longest maturity bond and the yield of the U.S. 10-year bond was used as the long-term interest differential. They are both substantiated by the difference in quality of the rate of increase of Japanese and U.S. GNP deflators (assuming complete foreknowledge of changes in the next 1-year period).

Table 9. Computational Results of Correlation Coefficient of Exchange Rate

(第9表)

為替レート開数の計測結果

		(1) 長期金利差を用いた場合	(2) 短期金利差を用いた場合	
(3) 説明変数のパラメーター (t値)	(4) 購買力平價 (50/I基準、GNPベース)	1.00 (18.0)	1.09 (4.6)	
	(5) 累積経常収支	50/I ~ 54/I	- 2.22 (2.7)	- 1.95 (2.4)
		54/II ~ 58/I	- 0.38 (0.6)	- 1.35 (1.5)
	(6) 長期実質金利差	50/I ~ 54/I	- 0.77 (0.2)	
		54/II ~ 58/I	- 6.15 (3.4)	
	(7) 短期実質金利差	50/I ~ 54/I		- 1.15 (0.6)
		54/II ~ 58/I		- 1.88 (2.5)
$\bar{R}^2$		0.885	0.376	
S.E		11.57 円/ドル (8)	11.99 円/ドル (8)	
D.W		1.74	1.61	

(9) 注) 計測期間はいずれも50/I ~ 58/I。計測にあたってはコ克蘭・オーカット法を使用。

Key:

1. Long-term interest differential used
2. Short-term interest differential used
3. Parameter used as the elucidative variable (t value)
4. Purchasing power parity (first quarter of 1975 as standard, on GNP basis)
5. Cumulative income and expenditure
6. Long-term substantive interest differential
7. Short-term substantive interest differential
8. Yen/dollar
9. Note: Computation period: first quarter of 1975 through first quarter of 1982 in both instances. (Cochran-Olcut method was employed in computation).

2) Generally speaking, the amplitude of change in the short-term interest rate is greater than that in the long-term interest rate, so even a relatively small short-term interest differential as a parameter may have a greater impact on the change in the exchange rate regarding the degree of contribution than the long-term interest rate.

It is also evident from recent experience that, while the long-term interest rate can be affected significantly by factors beyond the control of the central bank, such as the floatation of a large quantity of bonds and a high long-term foreign interest rate, the short-term interest rate can largely be controlled

by the central bank. Therefore, if the central bank will engage in short-term domestic interest rate manipulation aimed at correcting an excessive rate of exchange, then not only can the expectation of the future rate of exchange be changed, but a desirable influence on the rate of exchange can also be brought about as a result of the inflow/outflow of uncovered domestic and foreign capital stimulated by the impact of short-term interest rate manipulation on the long-term interest rate. The fact that short-term interest rate manipulation can be used as a countermeasure for the rate of exchange is based precisely on this principle.

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CS0: 8129/0485



## ECONOMIC

### HONDA MANAGEMENT, PRODUCTS, POLICIES, AFFILIATES STUDIED

#### Management Personnel

Tokyo ZAIKAI TEMBO in Japanese Dec 83 pp 41-56

[Article by Yoshiro Fujimoto]

[Text] Honda Enters Its Second Generation With the Appointment of President Kume

The date was 12 October 1983, popularly referred to as "10/12." On this date a 4-year prison sentence was pronounced on former Prime Minister Kakuei Tanaka, a leading figure in the Lockheed scandal, and the Japanese islands were filled with news of the case.

On that day, burning with "trial fever," a change in company presidents was announced by Honda Motor Co., Ltd.

The Cherry Room on the second floor of the Tokyo Palace Hotel was the venue for a press conference set for 5:00 pm to announce the change in Honda Motors presidents. At 5 minutes before the scheduled time, President Kiyoshi Kawashima took a seat in front together with four executives, including managing director Tadashi Kume who was to become the new president. From left to right, they were: managing director Akira Okubo, President Kawashima, managing director Kume, managing director Kochiro Yoshizawa and director Funio Mukoyama.

However, they had each attended a meeting of the board of directors that morning, already using their new titles: Kawashima as director and chief adviser, Kume as the new president, and Yoshizawa as a new vice president. That day Kawashima wore a pale blue shirt with white stripes and a gray suit. His necktie was black. He was smartly dressed as usual. The new president, Kume, took his seat with a faint appearance of tension; he was wearing a white shirt and a light blue suit.

First of all, Kawashima rose to address the board, holding notes in one hand. "Within the company, whenever the opportunity arose, I have always said that I think of 10 years as a unit, so while to some, this may appear to be an abrupt change of command, to me it is a change on schedule. I have

been aware these past 10 years that I lack the kind of talent that the two founders, Soichiro Honda and Takeo Fujisawa, possess. So in order to concentrate the power of 10 or 20 people, to go on building a power structure, I have applied composite power to management. The graceful retirement of my predecessors was also always in my mind. For that purpose I wanted to train a good successor in order to make the transition smooth. Since becoming president of Honda I have considered that the mission bestowed upon me was to nurture the path which my predecessors had pioneered as one who had a hand in the founding of the firm. I am not at all part of the second generation. I consider that I am of the first and a half generation. The second generation will probably be the management team consisting of the president who comes after me and his subordinates.

"This October marks the 35th anniversary of the founding of the company, a significant juncture. I am happy that things turned out so that I am able to turn things over to the true second generation." Each word was uttered distinctly clear, as though he was thinking back over the past 10 years.

He said in conclusion, expressing consideration for the second generation: "For the past year I have left the operation of the business to managing director Kume and the management team under him, and I have watched closely. As a result, I felt that I could turn things over to the second generation. During these 10 years my energies have been devoted completely to my work. When 10 years have passed, a person becomes worn out. So it is probably best to pass the baton to someone else, someone who has a deep attachment to Honda. Honda and Fujisawa, the two who formed the first generation, were born managers, but I was not. The young pair of Kume and Yoshizawa are equipped with enough real power within the company, but they are still inexperienced in the world at large, so I would like to request your gracious assistance for the new management team."

When Kawashima took his seat, there was a burst of applause from the press. It is unusual to witness applause at a press conference covering a retirement. It probably shows the extent to which this change of presidents appeared to the press as a "gracious retirement" following the example of the first generation, Honda and Fujisawa. The drama of a change of presidents is apt to be a ragged affair in which people sometimes make a pitiful show of themselves.

The change of presidents at Honda Motor Co. seemed to make an even greater impression because precisely on the very day, "10/12," Kakuei Tanaka, a person with experience as prime minister, although charged with a criminal offense, had acted as if he were still in power, and his course of action as a politician had become a major problem.

Then President Kume stood up to deliver his address as the new president. He said:

"It was around August that President Kawashima approached me about taking over from him. Although 2 months have passed, I am still filled with amazement, as though lightning had struck out of a clear blue sky. I want to carry on the youthful corporate style and internationalization laid down by former President Kawashima, who received his training directly from Honda and Fujisawa. I want to take firm steps, as if I were wearing spike shoes. I have no particular amusements, except for an occasional drink. So I may cause all of you trouble. After all, I am a clumsy man who for a long time has devoted himself to technical matters in the laboratory. But I am grateful to former President Kawashima for putting together a good combination, joining with me Yoshizawa, who is an expert on sales." Even in this modest address President Kume showed a flash of his self-confidence.

President Kume is 51 years old; he was born on 2 January 1932. It is an age at which, in the average corporation, he would still be at the division chief level. He entered Honda Motors in 1954, upon graduation from the mechanical engineering program of the Faculty of Engineering of Shizuoka University. He spent a long time in the laboratory, and in 1969 was appointed a director of the Honda Technical Research Laboratory. After becoming an executive director of Honda Motors in 1971, he became a managing director in 1974 and served as president of the Honda Technical Research Laboratory in 1977. He was appointed a managing director of the headquarters company in 1979. In 1981 he turned over the presidency of the Research Laboratory to Hideo Sugiura, and since then he has concentrated on work at the main company. In addition, President Kume is well known as the developer of the "Civic" which laid the foundation for Honda automobiles.

With the change in presidents on this date, Honda and Fujisawa, the two chief advisers on the board of directors, retired from the board and became chief advisers for life. It can be said that Honda Motors has entered a new age. Therefore, let us seek out the secret of Honda Motors' management as we trace the path of the 25-year era of the founders, Honda and Fujisawa, and the 10-year era of Kawashima. For that will give a clear picture of the pursuit of "youthfulness and internationalization" which the new president, Kume, emphasized and which to Honda is a perennial theme.

The Kawashima Era, in Which the "School of Minnows" System Paid Off

Let us begin by looking at the 10 years of the Kawashima era.

Kawashima became president of Honda Motors in October 1973. The founder, Soichiro Honda, had abruptly resigned as president of Honda motors, a company which he had built up over the course of his lifetime, and retired. Vice President Takeo Fujisawa, as Honda's right hand man, had formed an expert team with Honda, retired at the same time. This "drama of retirement" was greeted with praise and applause in business circles as a "graceful retirement."

The person designated as successor was Kawashima, who had long been considered the odds-on favorite for the position. Born in 1928, he was only 45, 22 years junior to Honda, who was born in 1906.

The Honda-Fujisawa, two-man founders, chose Kawashima to succeed as company president because: "That fellow Kawashima is unbelievably easy to get along with. Therefore, even if the two of us retire, the management team will be able to carry on, uniting around Kawashima. If it is Kawashima, the staff will go along with it."

Since Kawashima was chosen president in this manner, right after assuming office he behaved more like an elder brother than as a company president. Thus, the Honda management at that time appeared as though a "school of sparrows" had become a "school of minnows" [according to a children's song, a school of sparrows is one in which the teacher stands out from the students, whereas a school of minnows is one in which the teacher is indistinguishable from the students].

Formerly, the stern teachers Honda and Fujisawa had waved their pointers and taught the sparrows which were gathered around in a circle. In fact, countless executives and senior staff members were shouted at by these two, and some were even struck by them on occasion. When the team of Honda and Fujisawa retired and the era of President Kawashima began, the management shifted to a democratic system of group leadership. For that reason it was a situation of "take a look, they're all managing it together."

When President Kawashima took office, "trio management" was carried out by him and two vice presidents, Kihachiro Kawashima [not related to President Kawashima; characters for surnames are different] and Michihiro Nishida. The trio were experienced men who had been trained from youth by Honda and Fujisawa as the next generation of managers in sales: Kihachiro Kawashima, who had built Honda America; in the management field, Nishida, who had built up the organizational and personnel systems; and in technology, President Kawashima.

When he was still a division chief, Kawashima used to say: "The three of us talk things over and decide on a management policy. After all, Kihachiro Kawashima and Nishida are each excellent in their own field. The three of us pool our wisdom."

This trio of "[Kiyoshi] Kawashima in technology," "[Kihachiro] Kawashima in sales" and "Nishida in management" was the "first generation" that had been thoroughly trained by the founding team of Honda and Fujisawa.

Their feeling of solidarity with the founders was so strong that it is reported that when the founding team retired in October 1973, the trio made up their minds to retire at the same time. Then a management team was set up consisting of President Kawashima of the first generation

at the apex; from the second generation, chairman Hideo Sugiura and two vice presidents, Shigeru Shinomiya and Noboru Okamura; followed by four managing directors from the third generation: Tadashi Kume, Koichiro Yoshizawa, Satoru Okubo and Fujio Ishikawa.

What we refer to here as a "generation" is not a generation by age as it is commonly used. It is a specialized use for Honda Motors. To put it in terms of a family, the first generation which was trained directly by Honda and Fujisawa, the founders, corresponds to the "eldest brother." It can be said that, one step removed from the eldest brother, the second generation is the "second son" group, and the third generation is the "third son" group.

These "brothers" work together in an executive office called the "Big Room." At Honda Motors, executives do not have separate offices. All of them, from the company president down to ordinary directors, work with their desks lined up in the executive office on the third floor of the company headquarters in Harajuku. President Kawashima describes the merits of the Big Room: "You know right away what everyone is doing, and it is also easy to talk things over. If someone is talking, other executives join in the conversation too, and people come up with a lot of ideas for each other."

President Kawashima began managing Honda Motors as the "eldest brother," and he left much of the daily business to be handled by the second and third sons. Taking the consistent posture that "the one who makes the decisions is the president, the ones who do the work are in the shop, he delegated a good deal of authority to those under him. For instance, even in the matter of licensed production with England's British Leyland, when President Kawashima made the decision "Let's get a manufacturing site in England," the methodological question of whether to penetrate England independently or through cooperation with others was left to managing director Kume and those under him, so they went ahead with concrete actions.

President Kawashima spoke confidently: "A company president doesn't have all the details. And if he goes into the details, there isn't enough of him to go around, no matter how many hands he has. The people who know best are those on the shop floor. That is what executives are for, so it is all right to leave it to them."

In these words one can clearly perceive President Kawashima's evaluation of himself, his pride as the eldest son who took part in the founding and was trained by the founders, and referring to himself proudly as the "first and a half generation." President Kawashima says: "Looking back over the past 10 years, the decision I made as company president that remains most vivid is probably that to construct a factory in America to manufacture two-wheeled vehicles. So, next, let us take a closer look at the expansion to America which became the highlight of the 10-year Kawashima era.

## A Brief History of Honda Motors

1)	昭和年/月	23・9	4)	浜松市板屋町257番地に「本田技研工業株式会社」(資本金100万円)を設立する。
		24・8	5)	三角形直線フレームのD型オートバイの試作に成功、生産を開始する。
		25・3	6)	東京中央区横町に東京営業所を設置する。
		9	7)	北区上十条に東京工場を建設する。
		27・4	8)	本社を東京に移転する。
		6	9)	F型カブ号(50cc)全国に一斉発売。
		33・10	10)	荒川に高速テストコースを設置する。
2)	本 田 、 藤 沢 時 代	41)		スパーク発売。
		34・12	11)	アメリカホンダ(ロスアンゼルス)を設立する。
		35・13	12)	鈴鹿製作所(三重県鈴鹿市)が発足する。
		14	13)	本田技術研究所を分離独立する。
		37・11	14)	非同族企業化の布石として宗一郎氏の実弟、井二郎常務を解任する。
		39・16	15)	ホンダS F(サービスファクトリー)全国各地に建設開始。
		17	16)	11 狭山製作所4輪車工場が稼動。
		42・3	17)	18 ホンダN360発売。
		43・1	19)	19 1輪車、生産累計1千万台を突破する。
		45・2	20)	20 HONDA1300クーペ発売。
		45・3	21)	21 第1回オールホンダ・アイデアコンテストが開催される。
		47・7	22)	22 ビック発売。
		48・9	23)	23 創立25周年記念式典開催。
				本田宗一郎社長、藤沢武夫副社長、さわやか退任。 河島喜好社長就任。
		49・2	24)	24 ヒト、モノ、カネ専門委員会の四専務制を敷く。
		51・12	25)	25 熊本製作所発足。
3)	河 島 時 代	52・6	26)	26 アコードCVCC1600発売。
		52・10	27)	27 米国オハイオ州に生産工場建設を決定する。
		53・3	28)	28 ホンダ・オブ・アメリカを設立する。
		54・9	29)	29 米国オハイオ工場が稼動し始める。
		55・13	30)	30 米国オハイオ工場での四輪車生産を決定する。
		57・10	31)	31 米国オハイオ工場での四輪車生産を開始する。
		58・10	32)	32 創立35周年記念式典が開催される。
				河島喜好社長退任、久米是志専務が社長に就任。

[Key on following page]

Key:

1. Month and year
2. The Honda-Fujisawa era
3. The Kawashima era
4. September 1948: Establishment of "Honda Technical Research Industries Inc." (capital: 1 million yen) at 257 Itaya-machi in Hamamatsu.
5. August 1949: Successful trial production of the triangular straight line frame motorbike and start of production.
6. March 1950: Establishment of office at Maki-cho in Chuo-Ku, Tokyo.
7. September 1950: Construction of a factory at Kamijujo in Kita-Ku, Tokyo.
8. April 1952: Company headquarters moved to Tokyo.
9. June 1952: Model F (Cub) (50 cc) put on the market nationwide.
10. May 1958: High-speed test course established at Arakawa.
11. June 1958: Super Cub put on the market.
12. June 1959: Establishment of Honda America (Los Angeles).
13. April 1960: Suzuka plant (Suzuka, Mie Prefecture) begins operation.
14. July 1960 Honda Technology Research Laboratory split off and made independent.
15. November 1962: Benjiro [Honda], brother of Sichiyo, is relieved of his post as executive director in a move to change the company to a nonfamily enterprise.
16. July 1964: Start of construction of Honda SF (service factories) throughout Japan.
17. November 1964: Sayama plant, a factory for automobiles, begins operation.
18. March 1967: Honda N360 put on the market.
19. January 1968: Total production of two-wheeled vehicles breaks the 10-million mark.
20. February 1970: Honda 1300 coupe put on the market.
21. March 1970: First All-Honda Idea Contest held.
22. July 1972: Civic put on the market.
23. September 1973: 25th anniversary celebration held. President Soichiro Honda and Vice President Takeo Fujisawa "retire gracefully"; Kiyoshi Kawashima becomes president.
24. 1974: A system is set up with four managing directors and special committees on personnel, engineering and finance.
25. January 1976: Kumamoto plant begins operation.

[Key continued]

- |   |  |
|---|--|
| 26. May 1976: Accord CVCC 1600 put on the market.               | 30. January 1980: Decision to manufacture automobiles at the Ohio plant.   |
| 27. October 1977: Decision to build a production plant in Ohio. | 31. October 1982: Start of manufacture at the Ohio plant.  |
| 28. March 1978: Establishment of Honda of America.              | 32. October 1983: 35th anniversary celebration held. President Kiyoshi Kawashima retires and Tadashi Kume takes office as president. |
| 29. September 1979: Plant in Ohio begins operation.             |  |
- 

The "Great Determination" Kawashima Showed in Expanding to Ohio

What methods did President Kawashima employ in the expansion to America?

In Honda Motors there are specialized committees commonly referred to as the "Special Committee on People," "Special Committee on Things," and "Special Committee on Money." These are unique labels, characteristic of Honda, which describe the three great factors in management personnel, production and capital, in blunt terms. The members of management who assemble in the Big Room unfailingly are members of one of these three. It can be called the place for executive OJT (on-the-job training).

Within the "Special Committee on Things," there is a project team called "World Strategy on Production." Here they study the question of "where, within the world market, it is most advantageous to carry on local production."

Of course, expansion to America was also discussed in this project team. And expansion to America was called the "UHO Plan." "UHO" is the abbreviation for "U.S. Honda." Naturally, within the company, this name was linked with those mysterious flying objects, "UFO's." At the time, rumors abounded concerning "which auto maker would be the first to expand to America," and the question was really wrapped in mystery. Hence the name. It can probably be said that this spirit of playfulness is what gives Honda its youthfulness.

The project team for the "UHO Plan," headed by then managing director Masami Suzuki, had a staff of 150, from director Kazuo Nakagawa on down. Section chief level staff members participated in it from divisions



such as personnel, general affairs and accounting, as well as production; questions such as the choice of location, the number of vehicles to be produced and the amount of investment were studied from all angles. Ohio was selected.

As in the case of the British Leyland cooperation, with the "UHO Plan," President Kawashima merely made the decision, "Let's expand to America." He did not even go there to make a preliminary inspection for selecting the site. It was a very bold decision compared to the case in which Nissan's Motors President Shun Ishihara, when the company was expanding to Tennessee, inspected the possible sites with his own eyes before deciding.

President Kawashima said confidently: "I am delegating the responsibility, so there is no point in my looking at the site. It has been chosen as a result of comprehensive study and discussion, so it is bound to be the best site. I am not worried. After all, it is being handled by subordinates whom I trust."

This plan for expansion to Ohio began with the friendly association of Governor James Rhodes and Soichiro Honda. In the latter half of the 1965's the governors of American states were all enthusiastic about inviting Japanese enterprises, and Governor Rhodes, too, thought about luring the automobile industry in order to compete with Detroit in the adjacent state of Michigan. Presumably, the fact that Ohio, being affected by the automobile Mecca, Detroit, had many parts manufacturers was also a factor which led Governor Rhodes to invite an assembly plant.

At that juncture he recalled the Mr Honda whom he had met in a friendly way and from whom he had also received a telegram congratulating him on his assumption of office as governor, so he enthusiastically tried to persuade him. But Soichiro Honda had already retired, in October 1973, by the time Rhodes became governor.

Mr. Honda, openly pleased, says: "In regard to the construction of the Ohio plant, I had nothing to do with the decision. All I did was to transmit the governor's wishes. Kawashima made the decision; he has really become a fine president." In regard to Honda's praise of Kawashima, of course he was bound to be pleased by the person he had personally chosen as his successor, but Kawashima also made a praiseworthy decision immediately after taking office as president. President Kawashima took office, in October 1973, at the beginning of the first oil crisis. At that time the Japanese islands were buffeted by a whirlwind of inflation, with soaring prices as symbolized in the hoarding of toilet paper. In the midst of this storm, when the price of everything was rising, Honda Motors announced that "Honda

will not raise its prices." It is said that at that time Mr Honda, who learned of this while he was away on a trip, sent a telegram to President Kawashima which said: "Well done!" The new company president had received a passing grade.

In any case, in March 1978, Honda Motors established "Honda of America" (capital, \$75 million) at Marysville, Ohio, in the United States of America. The capital was provided 80 percent by the American sales corporation "American Honda" and 20 percent by Honda Motors.

The Ohio plant is located 50 kilometers from Columbus, the state capital. The scenery visible from the car window on the highway from Columbus has no variety whatsoever; wherever one looks there are flat cornfields with widely scattered farmhouses. This area is known as the granary of the American Midwest. The Ohio plant stands smack in the middle of those cornfields.

The total area of the plant site is 3.52 million square meters. The purchase price was \$1.3 million, just over a dollar per tsubo [a tsubo is equivalent to approximately 36 square feet].

First of all, in September 1979, production began of the 1100 cc and the 900 cc, large motorcycles not sold in Japan. Honda manufactures motorcycles in 28 countries around the world, but most of them are motorbikes of the 50 cc class; it was the first time the company made ultra large motorcycles.

In December 1980, when production was going well at this motorcycle factory, the company began to construct an automobile assembly plant on adjacent land; construction work was carried out at top speed by local workers, and the factory building was completed in 1 year and 8 months.

The single-story building covers an area of 98,700 square meters and is 617 meters long and 160 meters wide. The building contains a line for pressing, welding, painting and assembly. Of course, it is on a small scale in comparison with the scale of automobile plants in Japan, but it is a fine continuous production system. The total amount of investment was \$250 million, or in terms of yen, about 60 million yen; current plans call for annual production of 150,000 "Accord" compact cars at this factory. If production goes according to plan, the total number of American workers employed at the Ohio plant is expected to reach 2,000.

Apart from that portion connected with welding, the machinery at this factory, the press, assembly and so on, all use U.S.-made items. The same holds true for parts: except for major components, such as the engine, the suspension unit -----, and so on, that are shipped from Japan, the tires, seats, steel plate, instruments and so on are all U.S. made.

With a deafening roar, an American-made press with a capacity of 2,000 tons transforms U.S.-made thin sheet metal into a single unit body. Large preformed components, such as doors and fenders, are welded in 130 places simultaneously and instantaneously by an all-purpose welding machine developed by Honda Engineering, the only piece of equipment that is Japanese made, and the shiny silver body of the Accord is completed.

Suspended on a conveyor belt, the silver body of the car is given undercoat treatment. Application of powder and electroplating is carried out by a U.S.-made robot. Then the Japanese-made engine and major parts are installed, and the U.S.-made parts, the tires, seats and instruments, are fitted on one after the other. At the end, the brakes are tested.

A ceremony was held on 1 November 1982, with President Kawashima cutting the tape, to commemorate the completion of the first American-made Accord to come off the assembly line.

This first car in the expansion to America became a monument to President Kawashima. And it can probably be said that Honda's expansion to America is successful, particularly now that the self-imposed restrictions on Japan's export of automobiles, which sparked a Japan-U.S. economic war, are more likely to be extended for a second time.

At present, the number of cars which each Japanese company can export to America is allotted on the basis of the company's actual record. Honda Motors is restricted to approximately 30,000 cars annually. However, the "made in USA" Honda cars do not fall under this restriction, so they are sold freely. It is an "A-plus" situation, so it can probably be said to offer the best chance for Honda to increase its share of the U.S. market, especially since Honda developed its market with two-wheeled vehicles and its brand image in the U.S. market is strong. It holds third place in the American market, behind Toyota and Nissan. The increase in market share for Honda Motors, which has begun production in America, will probably continue as long as the self-imposed restrictions on exports go on. The longer the restrictions continue, the more advantageous it is for Honda. It might even be possible for it to overtake second-place Nissan. Even though Nissan has expanded to America, it is with a truck factory; while it is considering an automobile factory, too, it cannot very well carry this out right away. It is bound to take time, so Honda will be able to compete from a fairly advantageous position.

In that sense, it can probably be said to have been a "great decision" for President Kawashima, or rather, for all of Honda Motors. And the fact that it was brought to concrete realization through the delegation of authority to subordinates can be said to be an important characteristic of Honda Motors. In the era of the founders, Honda and Fujisawa,

as well, in their last years they carried on management by delegating wide authority to President Kawashima and others of the first generation. That tradition has been skillfully carried on.

#### The Foresight of the Honda-Fujisawa Team Which Introduced a System of Group Leadership

What was management by the founding team actually like in the era of Honda and Fujisawa?

Honda Motors was established in September 1948. It began with a capital of 1 million yen. Before the war, Soichiro Honda began with an auto firm and entered an auto repair shop business. Then he founded Tokai Precision Instruments and manufactured piston rings. At that time he supplied goods to Nakajima Aircraft (present Fuji Heavy Industries) and Toyota.

After the war, he bought up small military supply engines cheaply and installed them on bicycles, developing the "flap flap" [colloquial term applied to motor-driven bicycles because of the load noise made by the motor]. In the chaos in transportation facilities after the war, these sold like hot cakes to black market operators and so on.

Then Honda developed the Model A engine himself and went into regular production of motorbikes. President Kawashima had entered the company in the previous year. At that time the staff numbered 12. It was nothing more than a workshop.

In 1949 Honda met Takeo Fujisawa; they found themselves to be kindred spirits and joined up to form a team. This meeting can be said to have decided the fate of Honda Motors. From that time on, the technical genius, Honda, and the man who knew sales, Fujisawa, directed the management of Honda Motors as one entity.

What led to Honda Motors' great leap forward was the Model D engine, which was put on the market in 1949. Then, in 1950, the company set up an office in Tokyo and built a factory in Tokyo. Honda is said to have achieved the base for securing its position in the motorcycle industry in 1951 when it developed the Model E Dream, which used a four-cycle engine.

A gifted technician, Honda went on developing one product after the other. Meanwhile, Fujisawa took care of raising funds, building a sales network and so forth. The system of franchise shops which used bicycle dealers to sell their motorbikes was Fujisawa's idea. Putting the Model E Dream on the market increased sales fourfold at one stroke, to 330 million yen in 1951 from 83 million yen the preceding year. It literally made a "dream" come true for Honda Motors.

Table 1. History of Changes Among Executives of Honda Motors (all executives since 1954)

【本田技研工業歴代役員の変遷(昭和29年以降全役員)】				NO.1									
氏名	生年	11年	12年	社年	13年	14年	15年	16年	17年	18年	19年	20年	21年
15) 本田 宗一郎	3(6)	3(6)	4(7)	5(8)	6(9)	7(10)	8(11)	9(12)	10(13)	11(14)	12(15)	13(16)	14(17)
16) 藤沢 武夫	3(7)	3(7)	4(8)	5(9)	6(10)	7(11)	8(12)	9(13)	10(14)	11(15)	12(16)	13(17)	14(18)
17) 増田 義一	3(8)	3(8)	4(9)	5(10)	6(11)	7(12)	8(13)	9(14)	10(15)	11(16)	12(17)	13(18)	14(19)
18) 本田 井二郎	3(9)	3(9)	4(10)	5(11)	6(12)	7(13)	8(14)	9(15)	10(16)	11(17)	12(18)	13(19)	14(20)
19) 竹 島 弘	4(0)	4(0)	5(1)	6(2)	7(3)	8(4)	9(5)	10(6)	11(7)	12(8)	13(9)	14(10)	15(11)
20) 高橋 健助	4(1)	4(1)	5(2)	6(3)	7(4)	8(5)	9(6)	10(7)	11(8)	12(9)	13(10)	14(11)	15(12)
21) 工藤 義人	4(2)	4(2)	5(3)	6(4)	7(5)	8(6)	9(7)	10(8)	11(9)	12(10)	13(11)	14(12)	15(13)
22) 大島 頼光	4(3)	4(3)	5(4)	6(5)	7(6)	8(7)	9(8)	10(9)	11(10)	12(11)	13(12)	14(13)	15(14)
23) 鈴木 英二	4(4)	4(4)	5(5)	6(6)	7(7)	8(8)	9(9)	10(10)	11(11)	12(12)	13(13)	14(14)	15(15)
24) 白井 孝夫	4(5)	4(5)	5(6)	6(7)	7(8)	8(9)	9(10)	10(11)	11(12)	12(13)	13(14)	14(15)	15(16)
25) 宇佐美 正文	4(6)	4(6)	5(7)	6(8)	7(9)	8(10)	9(11)	10(12)	11(13)	12(14)	13(15)	14(16)	15(17)
26) 河島 善好	4(7)	4(7)	5(8)	6(9)	7(10)	8(11)	9(12)	10(13)	11(14)	12(15)	13(16)	14(17)	15(18)
27) 磯部 誠治	4(8)	4(8)	5(9)	6(10)	7(11)	8(12)	9(13)	10(14)	11(15)	12(16)	13(17)	14(18)	15(19)
28) 西田 通弘	4(9)	4(9)	5(10)	6(11)	7(12)	8(13)	9(14)	10(15)	11(16)	12(17)	13(18)	14(19)	15(20)
29) 小林 澄夫	5(0)	5(0)	6(1)	7(2)	8(3)	9(4)	10(5)	11(6)	12(7)	13(8)	14(9)	15(10)	16(11)
30) 原田 信助	5(1)	5(1)	6(2)	7(3)	8(4)	9(5)	10(6)	11(7)	12(8)	13(9)	14(10)	15(11)	16(12)
31) 大谷 新一	5(2)	5(2)	6(3)	7(4)	8(5)	9(6)	10(7)	11(8)	12(9)	13(10)	14(11)	15(12)	16(13)
32) 川原 三三	5(3)	5(3)	6(4)	7(5)	8(6)	9(7)	10(8)	11(9)	12(10)	13(11)	14(12)	15(13)	16(14)
33) 川島 善八郎	5(4)	5(4)	6(5)	7(6)	8(7)	9(8)	10(9)	11(10)	12(11)	13(12)	14(13)	15(14)	16(15)
34) 杉浦 英男	5(5)	5(5)	6(6)	7(7)	8(8)	9(9)	10(10)	11(11)	12(12)	13(13)	14(14)	15(15)	16(16)
35) 藤 宮 茂	5(6)	5(6)	6(7)	7(8)	8(9)	9(10)	10(11)	11(12)	12(13)	13(14)	14(15)	15(16)	16(17)

Key to Table 1.

1. Chief adviser	26. Kiyoshi Kawashima
2. Chairman	27. Seiji Isobe
3. President	28. Michihiro Nishida
4. Vice president	29. Sumio Kobayashi
5. Managing director	30. Nobusuke Harada
6. Executive director	31. Shin'ichi Otani
7. Director	32. Fukuzo Kawahara
8. Inspector	33. Kihachiro Kawashima
9. Name	34. Hido Sugiura
10. Year of birth	35. Shigeru Shinomiya
11. Education	36. 1906
12. Year entered company	37. 1910
13. 1954, 1955, etc. up to 1983	38. 1907
14. Present position	39. 1913
15. Soichiro Honda	40. 1910
16. Takeo Fujisawa	41. 1906
17. Giichi Masuda	42. 1911
18. Benjiro Honda	43. 1902
19. Hiroshi Takeshima	44. 1902
20. Kensuke Takahashi	45. 1920
21. Yoshito Kudo	46. 1912
22. Yorimitsu Oshima	47. 1928
23. Eiji Suzuki	48. 1925
24. Takao Shirai	49. 1922
25. Masafumi Usami	50. 1923

51. 1917
52. 1913
53. 1895
54. 1919
55. 1926
56. 1926
57. 1939 Hamamatsu Higher Industrial School
58. 1928 Kyoka Intermediate School
59. 1922 Shinkyo Machi Upper Primary School
60. 1929 Waseda Industrial School
61. 1932 Hamamatsu Higher Industrial School
62. 1924 Tokyo Kyokoku Vocational School
63. 1921 Faculty of Engineering, Tokyo University
64. 1925 Faculty of Law, Nihon University
65. 1927 Tokyo Commercial University
66. 1943 Faculty of Engineering, Rikkyo University
67. 1938 Faculty of Law, Kyoto University
68. 1947 Hamamatsu Industrial Institute
69. 1941 Shizuoka Prefecture Institute of Mechanical Engineering
70. 1943 Yokohama Higher Industrial School
71. 1945 Faculty of Engineering, Kyoto University
72. 1941 Faculty of Engineering, Tokyo University
73. 1938 Tokyo Commercial University
74. 1918 Tokyo Higher Commercial University
74. 1918 Tokyo Higher Commercial School
75. 1941 Yokohama Higher Commercial School

76. 1948 Faculty of Science, Kyoto University
77. 1945 Hamamatsu Higher Industrial School
78. 1939 Tokai Seiki Co.
79. 1949 (executive director)
80. 1948 (executive director)
81. 1939 Tokai Siki Co.
82. 1953 (executive director)
83. 1954
84. 1953
85. 1951 (inspector)
86. 1956 Mitsubishi Bank, Ltd.
87. 1950 Public Corporation for Foreign Trade in Textiles
88. 1953
89. 1948
90. 1948
91. 1950 San'ya Denka
92. 1952 Yamatoya Textiles
93. 1955 Ishikawajima Shibaura Kikai
94. 1962 Mitsubishi Bank, Ltd.
95. 1961 Mitsubishi Bank, Ltd.
96. 1951 Toshiba--Takai Petroleum
97. 1953
98. 1953
99. Director, chief adviser
100. Director, chief adviser
101. Uchiyam Aircraft
102. 1948 Factory chief



103. Ministry of Commerce and Industry
  104. Mitsubishi Corporation
  105. Nakajima Aircraft--Far East Air Force Headquarters
  106. New Empire Motors
  107. 1963 Director of Honda Technical Research Laboratory;  
1965 Managing Director of same
  108. Consultant
  109. 1962 Director of America Honda Motors
  110. Chief adviser
  111. Chief adviser
  112. Chairman of Masuda Manufacturing
  113. President of Honda Metals Technology
  114. Director, chief adviser
  115. President of Seiki Giken Co
  116. Consultant
  117. President of Honda Used Car Sales, Honda Development
  118. President of Fuji Chemicals
  119. President of Sharon Co
  120. Inspector, Mitsubishi Metal Corporation
  121. Consultant
  122. Chairman
  123. Vice president
-

Table 2. History of Changes Among Executives of Honda Motors (all executives since 1954)

本木技研工業歴代役員の変遷(昭和29年以降全役員)										NO.2
氏名	生年	11年	12年	社歴	13年	30・31・32・33・34・35・36・37・38・39	14年	現在	15年	
岡村 昇	35	昭24	昭26	高工	昭26	75				
服部 孝幸	36	昭29	昭29	大工	昭29	76				
浅尾 祐造	37	昭13	昭13	大工	昭13	77				
中村 良夫	38	昭17	昭17	大工	昭33	78				
大島 真三	39	昭19	昭19	大工	昭27	79				
大久保 敏	40	昭28	昭28	大工	昭28	80				
森脇 史朗	41	昭16	昭16	大工	昭28	81				
中 野 保	42	昭26	昭26	大工	昭26	82				
鈴木 正巳	43	昭26	昭26	大工	昭27	83				
中村 俊男	44	昭36	昭36	大工	昭50	84				
岡安 健次郎	45	昭26	昭26	大工	昭27	85				
吉沢 幸一郎	46	昭26	昭26	大工	昭29	86				
中村 碩文	47	昭36	昭36	大工	昭30	87				
小林 隆幸	48	昭26	昭26	大工	昭28	88				
中川 和夫	49	昭26	昭26	大工	昭29	89				
堀井 武夫	50	昭26	昭26	大工	昭28	90				
原田 隆夫	51	昭26	昭26	大工	昭29	91				
堀見 英彦	52	昭37	昭37	大工	昭30	92				
茅野 徹郎	53	昭37	昭37	大工	昭36	93				
鈴木 正利	54	昭27	昭27	大工	昭29	94				

本木技研工業歴代役員の変遷(昭和29年以降全役員)										NO.2
氏名	生年	11年	12年	社歴	13年	30・31・32・33・34・35・36・37・38・39	14年	現在	15年	
岡村 昇	35	昭24	昭26	高工	昭26	75				
服部 孝幸	36	昭29	昭29	大工	昭29	76				
浅尾 祐造	37	昭13	昭13	大工	昭13	77				
中村 良夫	38	昭17	昭17	大工	昭33	78				
大島 真三	39	昭19	昭19	大工	昭27	79				
大久保 敏	40	昭28	昭28	大工	昭28	80				
森脇 史朗	41	昭16	昭16	大工	昭28	81				
中 野 保	42	昭26	昭26	大工	昭26	82				
鈴木 正巳	43	昭26	昭26	大工	昭27	83				
中村 俊男	44	昭36	昭36	大工	昭50	84				
岡安 健次郎	45	昭26	昭26	大工	昭27	85				
吉沢 幸一郎	46	昭26	昭26	大工	昭29	86				
中村 碩文	47	昭36	昭36	大工	昭30	87				
小林 隆幸	48	昭26	昭26	大工	昭28	88				
中川 和夫	49	昭26	昭26	大工	昭29	89				
堀井 武夫	50	昭26	昭26	大工	昭28	90				
原田 隆夫	51	昭26	昭26	大工	昭29	91				
堀見 英彦	52	昭37	昭37	大工	昭30	92				
茅野 徹郎	53	昭37	昭37	大工	昭36	93				
鈴木 正利	54	昭27	昭27	大工	昭29	94				

本木技研工業歴代役員の変遷(昭和29年以降全役員)										NO.2
氏名	生年	11年	12年	社歴	13年	30・31・32・33・34・35・36・37・38・39	14年	現在	15年	
岡村 昇	35	昭24	昭26	高工	昭26	75				
服部 孝幸	36	昭29	昭29	大工	昭29	76				
浅尾 祐造	37	昭13	昭13	大工	昭13	77				
中村 良夫	38	昭17	昭17	大工	昭33	78				
大島 真三	39	昭19	昭19	大工	昭27	79				
大久保 敏	40	昭28	昭28	大工	昭28	80				
森脇 史朗	41	昭16	昭16	大工	昭28	81				
中 野 保	42	昭26	昭26	大工	昭26	82				
鈴木 正巳	43	昭26	昭26	大工	昭27	83				
中村 俊男	44	昭36	昭36	大工	昭50	84				
岡安 健次郎	45	昭26	昭26	大工	昭27	85				
吉沢 幸一郎	46	昭26	昭26	大工	昭29	86				
中村 碩文	47	昭36	昭36	大工	昭30	87				
小林 隆幸	48	昭26	昭26	大工	昭28	88				
中川 和夫	49	昭26	昭26	大工	昭29	89				
堀井 武夫	50	昭26	昭26	大工	昭28	90				
原田 隆夫	51	昭26	昭26	大工	昭29	91				
堀見 英彦	52	昭37	昭37	大工	昭30	92				
茅野 徹郎	53	昭37	昭37	大工	昭36	93				
鈴木 正利	54	昭27	昭27	大工	昭29	94				

本木技研工業歴代役員の変遷(昭和29年以降全役員)										NO.2
氏名	生年	11年	12年	社歴	13年	30・31・32・33・34・35・36・37・38・39	14年	現在	15年	
岡村 昇	35	昭24	昭26	高工	昭26	75				
服部 孝幸	36	昭29	昭29	大工	昭29	76				
浅尾 祐造	37	昭13	昭13	大工	昭13	77				
中村 良夫	38	昭17	昭17	大工	昭33	78				
大島 真三	39	昭19	昭19	大工	昭27	79				
大久保 敏	40	昭28	昭28	大工	昭28	80				
森脇 史朗	41	昭16	昭16	大工	昭28	81				
中 野 保	42	昭26	昭26	大工	昭26	82				
鈴木 正巳	43	昭26	昭26	大工	昭27	83				
中村 俊男	44	昭36	昭36	大工	昭50	84				
岡安 健次郎	45	昭26	昭26	大工	昭27	85				
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中村 碩文	47	昭36	昭36	大工	昭30	87				
小林 隆幸	48	昭26	昭26	大工	昭28	88				
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堀見 英彦	52	昭37	昭37	大工	昭30	92				
茅野 徹郎	53	昭37	昭37	大工	昭36	93				
鈴木 正利	54	昭27	昭27	大工	昭29	94				

本木技研工業歴代役員の変遷(昭和29年以降全役員)										NO.2
氏名	生年	11年	12年	社歴	13年	30・31・32・33・34・35・36・37・38・39	14年	現在	15年	
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服部 孝幸	36	昭29	昭29	大工	昭29	76				
浅尾 祐造	37	昭13	昭13	大工	昭13	77				
中村 良夫	38	昭17	昭17	大工	昭33	78				
大島 真三	39	昭19	昭19	大工	昭27	79				
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森脇 史朗	41	昭16	昭16	大工	昭28	81				
中 野 保	42	昭26	昭26	大工	昭26	82				
鈴木 正巳	43	昭26	昭26	大工	昭27	83				
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岡安 健次郎	45	昭26	昭26	大工	昭27	85				
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原田 隆夫	51	昭26	昭26	大工	昭29	91				
堀見 英彦	52	昭37	昭37	大工	昭30	92				
茅野 徹郎	53	昭37	昭37	大工	昭36	93				
鈴木 正利	54	昭27	昭27	大工	昭29	94				

本木技研工業歴代役員の変遷(昭和29年以降全役員)										NO.2
氏名	生年	11年	12年	社歴	13年	30・31・32・33・34・35・36・37・38・39	14年	現在	15年	
岡村 昇	35	昭24	昭26	高工	昭26	75				
服部 孝幸	36	昭29	昭29	大工	昭29	76				
浅尾 祐造	37	昭13	昭13	大工	昭13	77				
中村 良夫	38	昭17	昭17	大工	昭33	78				
大島 真三	39	昭19	昭19	大工	昭27	79				
大久保 敏	40	昭28	昭28	大工	昭28	80				
森脇 史朗	41	昭16	昭16	大工	昭28	81				
中 野 保	42	昭26	昭26	大工	昭26	82				
鈴木 正巳	43	昭26	昭26	大工	昭27	83				
中村 俊男	44	昭36	昭36	大工	昭50	84				
岡安 健次郎	45	昭26	昭26	大工	昭27	85				
吉沢 幸一郎	46	昭26	昭26	大工	昭29	86				
中村 碩文	47	昭36	昭36	大工	昭30	87				
小林 隆幸	48	昭26	昭26	大工	昭28	88				
中川 和夫	49	昭26	昭26	大工	昭29	89				
堀井 武夫	50	昭26	昭26	大工	昭28	90				
原田 隆夫	51	昭26	昭26	大工	昭29	91				
堀見 英彦	52	昭37	昭37	大工	昭30	92				
茅野 徹郎	53	昭37	昭37	大工	昭36	93				
鈴木 正利	54	昭27	昭27	大工	昭29	94				

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中 野 保	42	昭26	昭26	大工	昭26	82				
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岡安 健次郎	45	昭26	昭26	大工	昭27	85				
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鈴木 正利	54	昭27	昭27	大工	昭29	94				

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氏名	生年	11年	12年	社歴	13年	30・31・32・33・34・35・36・37・38・39	14年	現在	15年	
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服部 孝幸	36	昭29	昭29	大工	昭29	76				
浅尾 祐造	37	昭13	昭13	大工	昭13	77				
中村 良夫	38	昭17	昭17	大工	昭33	78				
大島 真三	39	昭19	昭19	大工	昭27	79				
大久保 敏	40	昭28	昭28	大工	昭28	80				
森脇 史朗	41	昭16	昭16	大工	昭28	81				
中 野 保	42	昭26	昭26	大工	昭26	82				
鈴木 正巳	43	昭26	昭26	大工	昭27	83				
中村 俊男	44	昭36	昭36	大工	昭50	84				
岡安 健次郎	45	昭26	昭26	大工	昭27	85				
吉沢 幸一郎	46	昭26	昭26	大工	昭29	86				
中村 碩文	47	昭36	昭36	大工	昭30	87				
小林 隆幸	48	昭26	昭26	大工	昭28	88				
中川 和夫	49	昭26	昭26	大工	昭29	89				
堀井 武夫	50	昭26	昭26	大工	昭28	90				
原田 隆夫	51	昭26	昭26	大工	昭29	91				
堀見 英彦	52	昭37	昭37	大工	昭30	92				
茅野										

Key to Table 2:

1. Chief adviser	34. Masatoshi Suzuki
2. Chairman	35. 1928
3. President	36. 1931
4. Vice president	37. 1915
5. Managing director	38. 1918
6. Executive director	39. 1923
7. Director	40. 1931
8. Inspector	41. 1922
9. Name	42. 1928
10. Year of birth	43. 1927
11. Education	44. 1968 [sic][1910]
12. Year entered company	45. 1927
13. 1954, 1955, etc., to 1983	46. 1931
14. Present position	47. 1933
15. Noboru Okamura	48. 1932
16. Takayuki Hattori	49. 1932
17. Yuzo Asao	50. 1929
18. Yoshio Nakamura	51. 1931
19. Shinzo Oshima	52. 1931
20. Satoshi Okubo	53. 1931
21. Shiro Moriwaki	54. 1936
22. Tamotsu Nakano	55. 1949 Tokushima Technical High School
23. Masami Suzuki	56. 1954 Faculty of Engineering, Nagoya University
24. Toshio Nakamura	57. 1938 Faculty of Economics, Keio University
25. Kenjiro Okayasu	58. 1942 Faculty of Engineering, Tokyo University
26. Koichiro Yoshizawa	59. 1944 Kinyu Technical Institute
27. Kenbun Nakamura	60. 1953 Faculty of Law, Tohoku University
28. Takayuki Kobayashi	61. 1944 Faculty of Law, Tokyo University
29. Kazuo Nakagawa	62. 1949 Yamanashi Technical Institute
30. Takeo Iwai	
31. Takao Harada	
32. Hidehiko Shiomi	
33. Tetsuo Kayano	

- |   |   |
|---|---|
| 63. 1947 Hamamatsu Technical Institute                                | 86. 1954  |
| 64. 1928 Faculty of Law, Tokyo University                             | 87. 1955  |
| 65. 1951 Technical Division, Nihon University                         | 88. 1953  |
| 66. 1954 Faculty of Economics, Kobe University                        | 89. 1954  |
| 67. 1955 Faculty of Economics, Yokohama National University           | 90. 1953  |
| 68. 1953 Faculty of Economics, Musashi University                     | 91. 1954  |
| 69. 1954 Faculty of Engineering, Nagoya University                    | 92. 1955  |
| 70. 1953 Faculty of Engineering, Nagoya University                    | 93. 1961  |
| 71. 1954 Faculty of Engineering, Shizuoka University                  | 94. 1954  |
| 72. 1955 Faculty of Economics, Kyoto University                       | 95. Vice president  |
| 73. 1957 Faculty of Arts, International Christian University          | 96. Director of the Act ranch   |
| 74. 1954 Kyoka Commercial High School                                 | 97. President of Toyo Sanso K.K.  |
| 75. 1951  | 98. Permanent adviser   |
| 76. 1954  | 99. Inspector for Keihin Seiki Manufacturing Co., Ltd., Honda Technical Research Laboratory and Honda Engineering |
| 77. 1970 Executive director of the Mitsubishi Trust and Banking Corp. | 100. Managing director  |
| 78. 1958  | 101. Inspector at Showa Manufacturing Co., Ltd.   |
| 79. 1952  | 102. President of Honda Retail Credit   |
| 80. 1953  | 103. Special adviser  |
| 81. 1953  | 104. Chairman of Mitsubishi Bank, Ltd.  |
| 82. 1951  | 105. President of Honda International Sales and of Kokusai Amalgamated Electrical Equipment                       |
| 83. 1952  | 106. Vice president   |
| 84. 1975 Director of Mitsubishi Bank                                  | 107. Executive director   |
| 85. 1952  | 108. President of Honda Land  |
|   | 109. Executive director   |
|   | 111. Executive director   |
|   | 112. Director   |
|   | 113. Executive director   |
|   | 114. Director   |

Table 3. History of Changes Among Executives of Honda Motors (all executives since 1954)

□本田技研工業歴代役員の変遷(昭和29年以降全役員)										NO.3							
氏名	生年	11年	12年	社年	13年	14年	15年	16年	17年	18年	19年	20年	21年	22年	23年	24年	25年
9) 千々岩雄平	昭和3	昭和28	神戶大経	昭和28	昭和75												
15) 中村正藏	昭和3	昭和29	京大工	昭和29	昭和76												
16) 石川富士夫	昭和3	昭和30	名大工	昭和30	昭和77												
17) 石川谷彰	昭和3	昭和33	静岡大工	昭和33	昭和78												
18) 久米是志	昭和3	昭和39	静岡大工	昭和39	昭和79												
19) 下田武三	昭和4	昭和40	東大工	昭和40	昭和80												
20) 池上秀男	昭和4	昭和42	北豊島商工	昭和42	昭和81												
21) 入交昭一郎	昭和4	昭和45	東大工	昭和45	昭和82												
22) 秋山光民	昭和4	昭和48	東大工	昭和48	昭和83												
23) 大石勝良	昭和4	昭和49	浜松工専	昭和49	昭和84												
24) 澤口健一	昭和4	昭和50	中大工	昭和50	昭和85												
25) 坂間孝一	昭和4	昭和51	横浜国大経	昭和51	昭和86												
26) 古山明	昭和4	昭和52	浜松工専	昭和52	昭和87												
27) 川本信彦	昭和4	昭和53	東北大経	昭和53	昭和88												
28) 井上和四男	昭和4	昭和54	日大経	昭和54	昭和89												
29) 山田善	昭和5	昭和55	東大工	昭和55	昭和90												
30) 向山文雄	昭和5	昭和56	法大経	昭和56	昭和91												
31) 大塚伸之	昭和5	昭和57	横浜国大工	昭和57	昭和92												
32) 吉野隆行	昭和5	昭和58	東大工	昭和58	昭和93												
33) 矢部幸久	昭和5	昭和59	東北大経	昭和59	昭和94												
34) 関部幸久	昭和5	昭和60	東北大経	昭和60	昭和95												

Key to Table 3:

1. Chief adviser	34. Yukihiisa Yabe
2. Chairman	35. 1930
3. President	36. 1932
4. Vice president	37. 1932
5. Managing director	38. 1934
6. Executive director	39. 1932
7. Director	40. 1907
8. Inspector	41. 1929
9. Name	42. 1940
10. Year of birth	43. 1919
11. Education	44. 1915
12. Year entered company	45. 1932
13. 1954, 1955, etc., to 1983	46. 1933
14. Present position	47. 1934
15. Yuhei Chijiiwa	48. 1936
16. Masayoshi Nakamura	49. 1927
17. Fujio Ishikawa	50. 1915
18. Akira Ishizudani	51. 1929
19. Tadashi Kume	52. 1938
20. Takezo Shimoda	53. 1939
21. Hideo Ikegami	54. 1933
22. Shoichiro Irimajiri	55. 1953 Faculty of Economics, Kobe University
23. Komin Akiyama	56. 1954 Facult of Law, Kyoto University
24. Katsuyoshi Oishi	57. 1955 Faculty of Engineering, Nagoya University
25. Ken Mizoguchi	58. 1958 Faculty of Engineering, Shizuoka University
26. Taiichi Sakama	59. 1954 Faculty of Engineering, Shizuoka University
27. Akira Furuyama	60. Faculty of Law, Tokyo University
28. Nobuhiko Kawamoto	61. 1947 Kita Toshima Institute of Commerce and Industry
29. Washio Inoue	62. 1963 Faculty of Engineering, Tokyo University
30. Haru Yamada	
31. Fumio Mukoyama	
32. Nobuyuki Otsuka	
33. Hiroyuki Yoshino	

- |   |   |
|---|---|
| 63. 1949 Faculty of Law, Tokyo University                     | 90. 1983 President, Mitsubishi Bank, Ltd.   |
| 64. 1945 Hamamatsu Higher Technical School                    | 91. 1954  |
| 65. 1957 Faculty of Engineering, Chuo University              | 92. 1962  |
| 66. 1956 Faculty of Economics, Yokohama National University   | 93. 1963  |
| 67. 1953 Hamamatsu Technical High School                      | 94. 1961  |
| 68. 1963 Graduate School of Tohoku University                 | 95. 1977 President, Honda Technology Research Laboratory  |
| 69. 1952 Faculty of Economics, Nihon University               | 96. Ambassador to Belgium, to the USSR, Vice Minister of Foreign Affairs, Ambassador to United States, Associate Justice of Supreme Court, Adviser to Ministry of Foreign Affairs |
| 70. 1937 Faculty of Law, Tokyo University                     | 97. Executive Director of Mitsubishi Trust and Banking Corporation  |
| 71. 1954 Faculty of Economics, Hosei University               | 98. Executive director  |
| 72. 1962 Faculty of Engineering, Yokohama National University | 99. Inspector   |
| 73. 1963 Faculty of Engineering, Tokyo University             | 100. Managing director  |
| 74. 1956 Faculty of Economics, Tohoku University              | 101. Director   |
| 75. 1953  | 102. President  |
| 76. 1954  | 103. Director   |
| 77. 1955  | 104. Executive Director   |
| 78. 1958  | 105. Executive Director   |
| 79. 1954  | 106. Inspector  |
| 80. 1979  | 107. Permanent adviser  |
| 81. 1952  | 108. Director   |
| 82. 1963  | 109. Director   |
| 83. 1979  | 110. Director   |
| 84. 1954  | 111. Executive Director   |
| 85. 1963  | 112. Inspector  |
| 86. 1961  | 113. Director   |
| 87. 1953  | 114. Director   |
| 88. 1963  | 115. Director   |
| 89. 1953  | 116. Director   |
|   | 117. Inspector  |

After the development of the Dream, the sales volume each year rose fourfold, eightfold, threefold, and in the sixth year after its founding the company made a public offering of stock for the first time; over-the-counter sales of stock began on the Tokyo Stock Exchange. It was a year that deserves to be remembered as the one in which Honda rose from a small to a medium-size enterprise.

But in the preceding year the Honda-Fujisawa team had become complacent because of how well their sales were going and had made a large purchase of machine tools. The amount was 450 million yen. And the amount of investment in plant and equipment for the construction of three factories at Yamato, Shirako and Hamamatsu reached 1.5 billion yen. The bad news was that a suit was filed against Honda in connection with the Dream, the popularity of the Cub declined, too, and the company faced its first emergency. For a time, even bankruptcy was considered.

However, the crisis was brilliantly resolved by Honda's deep attachment to technology, and once more the company rode on an updraft. Meanwhile, Fujisawa obtained the support of a major bank, Mitsubishi Bank, and worked hard to gain extensions on their payments to cooperating factories. It can be said that the fact that the bicycle industry was at the bottom of a recession at that time, with strikes breaking out continually due to labor disputes, made it opportune for their campaign to receive the support of cooperating factories.

Following that, Fujisawa approached Honda, saying: "Mr President, when we sell Dreams and Benris, the number is limited. In order to sell a lot, we really need a 50 cc product. And not the kind we've had up to now, like the Cub, which has the engine attached to a bicycle. This time I'd like to have you build something with the engine and body in one unit from the beginning. Honda has no future unless we build something that will develop the latent demand for a two-wheeled vehicle."

As a result, the Super Cub was put on the market in 1958. It became a hit, boasting a production volume of 100,000 a month, the highest in the world. One can say that Fujisawa was a complete amateur in regard to technical matters, but he had reliable judgment in marketing because he kept an eye on the movement of the market. So Honda made every effort to meet Fujisawa's request.

In any case, although Honda was the company president, he left the entire management of the company to Fujisawa. It was a setup which permitted Honda himself to concentrate totally on technology. For that reason he proceeded without any difficulties at all over money. He even said: "I turned the han [seal which counts as a signature under Japanese law] over to Fujisawa. I have never stamped a document." This can be said to be the origin of the delegation of authority at Honda.



In 1959 American Honda was established. This was carried out by Kichiro Kawashima, who can be said to be the foremost of Fujisawa's disciples. At the time, motorcycles in America had a bad image as "something ridden by violent people who wear black jackets," what we nowadays call "speed demons," and the demand was only on the order of 60,000 a year. Faced with that problem, Kihachiro Kawashima, who had become vice president of American Honda, developed a "nicest people" advertising campaign using first-class magazines such as LIFE and LOOK. This campaign was a success, the image of motorcycles changed, and sales of the Super Cub exploded.

Then in 1963 Honda went on to expand into four-wheeled vehicles with the model S360 sports car. In 1967 the company put a light automobile, the N360, on the market and it became popular. Then, in 1969 it marketed a regular passenger car, the Honda 1300, and entered the ranks of passenger car manufacturers. In that year the four managing directors, Kiyoshi Kawashima, Kihachiro Kawashima, Michihiro Nishida and Takao Shirai, were all promoted to managing director. These four followed the wishes of the Honda-Fujisawa team, and the system of group leadership was firmly established.

That year was unforgettable for Soichiro Honda, too. At that time, there was an uproar about defective cars and the problem of pollution arose. The younger technicians did not believe that the air-cooled engine favored by Honda could overcome the problem of exhaust emission, and they advocated a water-cooled engine. One of the chief technicians at that time, who was caught between the air-cooled and water-cooled engine factions, was none other than Tadashi Kume, who became the new president this past October.

During the "air-cooled versus water-cooled" debate in the laboratory, Kume was caught between the opposing sides. As chief technician for design, he was taunted by the young technicians of the water-cooled faction who said: "Why don't you talk the president into it?" And he was roared at by Honda, of the air-cooled faction, who said, "Why do you keep on repeating the same thing all the time?" Kume was a member of the water-cooled group. At that point he decided "we can no longer make good engines the company president's way; with things as they are, I will not go to the laboratory until he changes his mind," and he shut himself up in his home. In other words, he carried out a "stay home strike."

When the strike occurred, Kawashima and others visited Fujisawa and persistently urged him to persuade the president. So Fujisawa pressed Honda, saying: "Are you going to take the path of company president, or do you think you should be in the company just as a technician? At this point, shouldn't you be choosing one or the other?" On hearing these words, Honda came to his senses; he said: "I probably should stick to being company president," and he followed the view of the team of young technicians.

The Life, a light car equipped with a water-cooled engine, made its debut, and Honda realized that "it is no longer my era. It is the era of young people." Then the CVCC low-pollution engine was developed, Honda's voice declined even among technicians, and authority was gradually transferred to Kume and his group. In October 1973, 4 years after this "incident," Honda and Fujisawa both retired at the same time, becoming directors and chief advisers.

#### Honda, Where Youth Supports Haphazard Presidents

After 10 years, this past 15 October, Honda Motors marked the 35th anniversary of its founding, and President Kawashima also retired to become a director and chief adviser. The anniversary celebration was held on a grand scale at the Suzuka plant, with the drama of the changing of presidents.

The ceremony, which brought together 20,000 staff representatives from around the country, was held in the rain. A squad of motorcycles, led by a Curtis, filed past in front of the grandstand at the Suzuka plant where the meeting was held. Kawashima made his appearance in the procession mounted on a GL1200 from the Ohio plant, and President Kume appeared driving a blue City turbo. It was an all-Honda parade with two-wheeled and four-wheeled vehicles. The two alighted from their vehicles and, greeted by applause, climbed onto the platform where they were presented with flowers. Then Kawashima made his address as retiring president. Next, Kume gave his greeting as new president, saying: "From the enthusiasm of the audience I sensed the tenacity of youth combined with the instantaneous strength of youth. The future of Honda is eternal."

Following that, Kawashima was given a large model of the "Victoria II" by representatives of the staff. The ceremony, which lasted an hour, went off without a hitch in the midst of a fierce downpour. At the end, when the officials began to leave the platform with President Kume in the lead, the employees surged forward, surrounded Kawashima, and tossed him into the air. Kawashima appeared overjoyed as he sailed into the air again, and yet a third time.

At the very end, Honda was introduced and said a few words.

He set the audience laughing by saying: "Our company has grown so big that our employees are gathering here today from countries all over the world. I feel as though I'm dreaming. It is as though I were being bewitched by foxes. You are all foxes, aren't you?" Then he congratulated the two presidents, new and former, with one of his typical jokes. "All the presidents of Honda, including myself, are haphazard fellows. Kawashima was haphazard, and Kume is haphazard, too. That is why all of you employees have to be on the alert. Because each one of you is propping Honda up."

Truly, the vitality of Honda's youthfulness could be seen from the enthusiasm of the gathering. The company's "youthfulness" is a perennial topic; it is the driving force for the growth and development of the enterprise. This tradition has been transmitted to President Kume, too. As expressed in the words of the new president upon taking office, "treat youth as something precious," and it will continue on without a break.

"It may be considered a sudden retirement, but ever since taking office as company president, I have looked upon 10 years as a unit. Since that time I have also wished to choose a good successor and to retire cleanly when the time came, as did my predecessors, who are famous for having 'retired gracefully.'" At the joint press conference held on 12 October at the Palace Hotel in Otemachi, Tokyo, former President Kiyoshi Kawashima spoke without regret as he reported managing director Tadashi Kume's promotion to president and his own move to director and chief adviser.

At the same time, the promotion of managing director Koichiro Yoshizawa to representative director and vice president was announced, as was the retirement of Soichiro Honda and Takeo Fujisawa, who had been directors and chief advisers, from their positions as directors.

Yet if one considered the fact that this drama of the changing of top executives took place in the October which marked the juncture of the 35th anniversary of the founding of the company, it would have been fully anticipated. Over the past year or so Kawashima, who was working at top form with the air of a well-oiled machine, had often said: "It is easy to slip when you are well oiled," predicting the events that transpired on this date.

Kawashima always kept in mind that exactly 10 years before, on the occasion of the 25th anniversary of the company, the founding team of Honda and Fujisawa suddenly turned the position of president over to Kawashima, who at the time was only 45, saying: "Technology changes every day and there are now many things which we can't understand. There is no use in old men stubbornly struggling on and on," and stepped down to the position of directors, and this led him to select the exact same pattern.

However, the handling of the situation of Kawashima's resignation appeared to present a problem due to the fact that in October of the previous year, Vice President Hideo Sugiura had been appointed to the newly established position of chairman. But here, too, the pieces of the puzzle neatly fell into place, with the spontaneous resignation of Honda and Fujisawa from their directorships (chief adviser is a lifetime post) and the appointment of Kawashima as director and chief adviser.

## Establishing the "Honda-Style Management System" Through a Group Setup

Over the past 10 years Kawashima has increased Honda Motor's sales volume to 5.3 times, and its ordinary profits to 2.4 times the former amount. The company has grown into a large enterprise in which sales, which were 400 billion yen at the time of Kawashima's appointment, are now over 1.7 trillion yen.

Reminiscing over the 10-year period, Kawashima says: "The month after my appointment as president, the first oil shock suddenly erupted. At that time I became completely exhausted mentally. It was just one worry after the other." Yet during that time he achieved the move away from light cars and the transformation into a manufacturer of mass-market cars centered around the Civic and Accord, and in 1978 he began local production of motorcycles in Ohio, in America. Later, he also began production of automobiles at the Ohio plant (November 1982); at present it is emphasizing quality control, operating slowly at the rate of 300 cars per day, but next spring it will change to a full production system with a rate of 800 cars per day.

In addition, Kawashima's achievements as leading runner in the era of internationalization were great: production of cars through technological cooperation with England's BL (British Leyland) (licensed production by BL of a Honda car under the name "Triumph Accord"), the joint development of a 2000 cc luxury class car, and so on.

However, what Kawashima is valued for, even more highly than for the expansion of the company's business or the promotion of the line of internationalization, is the fact that he firmly established a management system for Honda.

In the era of Honda and Fujisawa, during the founding period, a dynamic management was developed under the command of Soichiro Honda, who possessed ideas and flashes of insight which smacked of genius, but it is also said that on the other side of the coin: "Under the direction of the founder at the head of the battalion, the company would abruptly move with a shout and suddenly stop with a shout, and there was a lot of wasted effort." (middle-level executive)

But at the proposal of Fujisawa, who recognized this defect, the Big Room system was introduced in 1964. It derived from his idea that an executive is not a supervisor of the assembly line, but must be one of those who shoulders responsibility for deciding the direction in which the enterprise will head. Executives should all be in one room, constantly facing each other and talking frankly with each other about the management of the enterprise.

The one who utilized the Big Room system to the utmost and made it pay off was Kawashima. Kawashima says that at the time of his appointment as president, he decided in his heart about the training of his successor and the manner of his retirement. But he also kept in mind that: "My predecessors were able to move things along by a capacity for administration that was sheer genius. I do not have talent like Honda and Fujisawa, but if I can gather together the individual cleverness and efforts of 10 or 20 people and build the power of a system, we will be able to overcome problems."

In the Big Room, measuring 100 square meters on the third floor of the company headquarters, there are only the work desks of managing directors and above, plus four round tables. Honda's supreme internal legislative body is the Committee of Managing Directors, and for this: "The executives gather noisily at a round table, and an animated discussion ensues. The operation is extremely flexible; sometimes the president takes part, and sometimes it is just the managing directors. It is a common occurrence for the division chief responsible for the matter under discussion to serve as chairman." (Public relations division)

The fact that, although employing the Big Room system, things did not degenerate into "mob rule," owes a lot to Kawashima, who, following in the footsteps of his predecessors, was always mindful of group dynamics and displayed strong leadership by actively participating in the discussions himself.

Soon after his appointment as president, Kawashima established an "SED system," organizing a management setup which could reflect the needs of customers by combining three strengths--sales (sales), engineering (technology) and development (product development).

In recent years, the fact that Honda has made a big hit with its "City," a unique car that follows the Civic and Accord; that in two-wheeled vehicles Honda put out 45 new models in one year, thoroughly repulsing Yamaha's drive to overtake it; and that in the face of pressure on profits Honda has increased its investment in research and development each year, including spending on research entrusted to the Honda Technical Research Laboratory, developing "a management well balanced between offense and defense," is due to the fact that the SED system is fully functioning.

In August this year, Honda Motors held debut and test-drive sessions throughout the country for the "new Civic." It is reported that on the evening of the day the debut was held in Tochigi Prefecture, Kawashima, who was at a hotel in Nasu, was slightly intoxicated and confessed "I was really tormented by Soichiro Honda; that is how I got stomach ulcers," whereupon he removed his shirt and showed the scar on his stomach to those around him.

Certainly, as Kawashima himself implied when he said, "I am not the second generation but the first and a half generation," from the era of Honda Technical Research Industries Inc., the forerunner of Honda Motors training for the job of president had been beaten into him by the founder. He said: "Sometimes I was hit by the boss with a wrench, or he would tear up and throw away the design plans that I'd gone to so much trouble to draw. It was really awful."

But these recollections of Kawashima's are an expression not so much of resentment toward Soichiro Honda as they are of the fact that Kawashima himself was totally burned out as company president; he may have wished to inform Kume, whom he had early on chosen as his successor, that "it is hard to be a company president."

In any case, according to a certain top executive, there is no doubt that through Kawashima's efforts, "a system has developed at Honda under which no matter who becomes president, he will be able to discharge his duties without difficulty."

New Setup Is Based on the Indivisible Team of President Kume and Vice President Yoshizawa

Kume, who took office as the new president, is 51 years old; he was born in January 1932 at Hamamatsu in Shizuoka Prefecture. He is 4 years younger than Kawashima. After graduating from the mechanical engineering program of the Faculty of Engineering at Shizuoka University in March 1954, he entered Honda Motors the same year. From that time on he worked continuously at the Honda Technical Research Laboratory, grappling with the problems of developing automobiles; from January 1977 to June 1981 he was representative director and president of the Research Laboratory, and starting in May 1979 he also held the posts of representative director and managing director of Honda Motors. He is known as the person who developed Honda's hit product, the Civic. He is serious minded and concentrates on technology. Kume says: "About the only amusement I have is taking a drink," but Kawashima chose him as next in line and trained him for the presidency. But Kume also has a stubborn side and refuses to compromise once he has taken a stand. Around 1969, when measures to deal with automobile exhaust fumes became a public issue, Soichiro Honda advocated following the line of the air-cooled engine which Honda had developed up till that time in models such as the Honda 1300. But a group of young technicians led by Kume directly opposed him, saying: "It will be impossible to overcome the problem unless it is with a water-cooled engine." In the end, Kawashima and Fujisawa mediated between the disputants and persuaded Soichiro Honda to accept the water-cooled engine, but the anecdote about the time Kume went on a "one-man strike" for a month is famous.

In his speech upon taking office as the new president, Kume said:  
"Having received direct guidance from two generations, the chief advisers and former President Kawashima, I will follow that line. I want to advance step by step, steadily as though wearing spiked shoes." Thus, while stressing that his appointment as president came as a bolt out of the blue, he made it clear that he would carry on the line of internationalization and the system of joint leadership which had been followed up to that time. He then went on to express his hopes, saying: "Up to now Honda Motors has had the instantaneous strength of youth, but in addition, I would also like to obtain vitality and the tenacity which can overcome obstacles."

The one to whom Kume is grateful "for having worked well with me," is Vice President Koichiro Yoshizawa, his top assistant. Yoshizawa is 51 years old, born in Osaka in October 1931, and has been with the company about as long as Kume. He entered Honda Motors after graduating from the Faculty of Economics of Kobe University in 1954. Since that time he has concentrated on operations and management, and from March 1977 to May 1981 he was president and representative director of American Honda Motors. In June 1981 he became division chief of two-wheeled vehicles in Japan; he displayed great acumen in the HY war (the competition between Honda and Yamaha for share of the domestic market) and shocked the Yamaha forces. He is an affable person on the surface, but underneath he has a fierce fighting spirit.

The indivisible team of Kume in technology and Yoshizawa in sales forms the framework of the new management setup, which boasts a youthful median age of 50.6, for the present, the veteran staff will probably assist them.

The most important of these is Chairman Sugiura. Sugiura is 56, born in Tokyo in December 1926. He graduated from the physics program of Kyoto Imperial University in 1948 and entered Honda Motors in 1953. Since then he has concentrated on the fields of inspection, quality control, production technology, the Research Laboratory and technology. In 1981 he became president of the Honda Technical Research Laboratory, and he became Honda's first chairman when that position was established in October 1982.

At Honda Motors, according to the company bylaws, "the chairman is responsible primarily for activities of a public relations nature, and through activities in this area assists the president, who is the person responsible for the conduct of business." Recently Sugiura spoke on "Industry, Investment and their Strategies," along with former U.S. Secretary of State Kissinger, at the IAFEI held in Jakarta. In the future as well, both in Japan and abroad, he will probably "go on presenting the arguments which establish the social value of Honda's existence." (Sugiura)

Meanwhile, Shigeru Shinomiya and Noboru Okamura are senior vice presidents who, along with Yoshizawa, will continue to assist Kume. Shinomiya is 57, born in 1926. He entered the company in 1953. He is a specialist in quality control and has long experience as a factory chief. At present he is both representative director and president of Honda Technical Research Laboratory, and he is zealously seeking a solution where factory automation, robotization and human nature can coexist.

Okamura is 55, born in 1928. He graduated from Tokushima Technical High School in 1949 and entered the company in 1951. He has concentrated on the field of sales, and has held various posts such as chief of the foreign division, so he is particularly knowledgeable in overseas matters.

But these two vice presidents are somewhat old for employees of Honda Motors, so it is considered very likely that they will soon yield their positions to younger people. It is anticipated that the two managing directors (possessing power of representation), Satoshi Okubo and Fujio Ishikawa, may very well take their places and be promoted to vice president at a comparatively early stage in their careers.

Okubo is 52, having been born in 1931; he graduated from the Faculty of Law at Tohoku University in 1953 and entered the company in the same year. He is an authority on labor relations and has held a number of posts such as chief of the General Affairs Division and chief of the Hamamatsu plant. Until recently, he was in charge of the "Special Money Committee" of the three specialized committees on people, things and money which were formed at Honda.

Fujio Ishikawa is 51, born in February 1932. He entered the company after graduating from the Faculty of Industry at Nagoya University in 1955. After being appointed chief of the auto body technology office of the Production Technology Division in 1973, he held important posts in Honda Engineering from 1974 to 1978.

#### Irimajiri-Kawamoto Team To Be the Next Administration

One thing people are watching is how the new Kume administration will treat executive director Shoichiro Irimajiri, "a strong candidate to be the next president."

Irimajiri is 43 years old, born in January 1940. He entered the Honda Technical Research Laboratory in 1963 after graduation from the aeronautical program of the Faculty of Engineering of Tokyo University. His specialty is engine design; in 1979 he directed the production team for the Grand Prix racing motorcycle which Honda returned to after a period of 14 years. In the recent HY war, Irimajiri was in charge of the development of two-wheeled vehicles, and he is the real father of the V-shaped engine for two-wheeled vehicles. In 1979,



at the age of only 37, he was chosen a director of Honda Motors and attracted wide attention as "an executive in his 30's." This May, he was promoted to executive director and appointed chief of the Suzuka plant. Up to now he has concentrated on the field of research and development, but from now on he will be overseeing production of two-wheeled vehicles, and he is considered to be the odds-on favorite for leadership in the post-Kume administrative setup. Just as in the Kawashima-Kume relationship, in the future it will probably be Irimajiri assisting Kume in technology and studying the secrets of the presidency.

One other person, Nobuhiko Kawamoto, a strong rival of Irimajiri, was also promoted to executive director this May along with Irimajiri. Kawamoto is 47, and was born in 1936. He entered the Honda Technical Research Laboratory in 1963 after graduating from the precision engineering program of the graduate school of Tohoku University. He has an important position as the person who is responsible for automobile development.

Up to now, although there have been a number of junctures, Honda has expanded its record of accomplishments more or less smoothly; however, the outlook in the coming March period of 1984 is increased sales but a drop in profits with sales of 1.8342 trillion yen (5 percent above the same period in the preceding year), ordinary profits of 48 billion yen (down 5.1 percent), and a net profit of 26 billion yen (down 16.9 percent). As to the drop in profits following 2 profitable years, factors can be cited such as the pressure of investment in research and development, but on the other hand, the swollen inventories and shrinking production plans which accompany the lingering symptoms of the HY war weigh heavily on the company.

In regard to the Kume administration, as Kawashima said: "It takes time to do things in accordance with a consistent policy. I would like the new president, too, to make an effort, taking 10 years as a single unit." There are those who believe that "a presidential term of 10 years" has become fixed at Honda Motors. But originally Honda advocated "flexible personnel management," so there is no reason to become dominated by anniversaries of the founding. A scenario in which Kume would resign after a period of 6 to 8 years, at the earliest, and after that the Irimajiri-Kawamoto team would take office, is probably quite realistic.

In regard to automobiles, domestic demand still has not recovered, and the problem of Japan-U.S. automobile friction is moving in a direction where in a 1-year extension of the voluntary restraints on exports to America appears inevitable.

Motorcycles, too, will require time for restoration of order in the domestic market, and exports to America have received a one-two punch with the bailout of the Harley Davidson Company and the levying of a high tariff.

Thus, there are severe problems in the environment which surrounds Honda; the reverse side of the coin is that Honda's international expansion, which is a step or two ahead of other companies in the same field, is an extremely profitable asset for the company.

Honda is often criticized for being a "lone wolf" or the "troublemaker of the industry," but if we examine each detail of its expansion to America, there are few companies that have planned in such detail and made repeated feasibility studies before grappling with a problem. In other words, Honda should be called "a troublemaker who operates on the basis of reliable prospects of winning."

How will the Kume administration go on steering the ship in the future? This will undoubtedly be an item of interest, along with the development of the Irimajiri-Kawamoto team.

#### Product, Sales Strategies

Tokyo ZAIKAI TEMBO in Japanese Dec 83 pp 58-64

[Article by Seiji Yoshizawa]

[Text] Honda's Local Production System Praised Lavishly by GM

Since Honda is the latest manufacturer to begin making 4-wheel vehicles, up to now whenever anything has come up, it has always been made a target for reorganization. But all these moves have been repulsed, and now, once again, Honda is fighting alone in the midst of a worldwide vortex of reorganization; it possesses the vitality of a phoenix.

When we reconstruct the background of this, the source can be found in the management principle that has operated since Honda's founding, a system that considers that "in research 99 percent failure is permissible"; in other words, it can be considered a success if original technology comes out of the 1 percent that is left. This does not mean that Honda is always betting on this 1 percent. The real strength of Honda lies in the fact that it possesses a genius-like capacity to record the 99 percent of failure as valuable experience and to "turn catastrophe into a blessing" in the next development. Paradoxically, the secret lies in Honda's rational nature which causes "perfect combustion" without wasting even 1 percent.

Thus, there is no need to scatter examples around in order to explain Honda's management strategy. It is found in unique thinking which is ahead of its time, in youth, in a frontier spirit which scoffs at failure, and in advanced technology which possesses a destructive force that is creative. The consistency of Honda management can be seen in the fact that these qualities are condensed in its overseas strategy, its product development and its development of markets.

"Alliances and amalgamations between manufacturers which transcend national boundaries have become active; Honda's line of internationalization is seen, for example, in the Ohio plant.... Although it may be an international joint venture, the important thing is what is made there; in other words, unless you are making equipment which has international value, or a vehicle with a good reputation, even if it is called a joint venture it is merely a 'motif' in a painted picture," and so on.

Former President Kawashima proudly said this at the debut of the "Civic" and the "Ballad" at the newly decorated Akasaka Prince Hotel on 22 September.

Normally he would have ended with words about the development ideas behind the new models, as befits a company president who is a technician, but this day was different. Depending on how one took it, he could be interpreted as having emphasized Honda's strength as an international enterprise while mildly criticizing the business world's hasty alliances between companies from different companies.

What is behind this self-confidence? Soon after taking office as president Kawashima foresaw the automobile wars of the 1980's and began to build up the enterprise strength to win these wars and to erect a world strategy. Today, in his 10th year in office, Honda's advanced technology is demonstrated in the development of the "City," a popular product, and in the various model changes of the Accord, Prelude, CR-X and Civic. Is the support for his confidence not found in this and in the success of his overseas strategy symbolized by the Ohio plant-manufactured "Accord," which was highly praised even by GM, a world leader in autos? And taking this occasion as an opportunity, he was actually concealing within himself the decision to retire from his position as company president.

"I just said anything that came into my mind, but look here, I had these." In a rather agitated manner Kawashima drew some "notes" out of his jacket pocket and showed them to me. The notes said...

Their contents were noteworthy: an ambitious plan to speed up the second-term plan for the Ohio plant which had gone into operation in the fall of the previous year--that is, full production under a single-shift system is becoming increasingly efficient, and next year it will change to a two-shift system. The plant will hire 1,200 new employees, and with a total work force of 2,000, it will manufacture cars at the rate of 600 a day, 150,000 annually. And it will sign a plan to manufacture the xx car with England's British Leyland sometime this year.

But why was it necessary to publicly reveal the state of progress of the overseas strategy at this time? In that can be seen Honda's fierce challenge to the major manufacturers.

The expansion into the United States as an automobile manufacturer-- this was a big gamble for Honda. In 11 January 1980, at a time when the "Japan-U.S. car war" was sending out sparks, Honda decided to expand to America, a course of action which Toyota and Nissan had already rejected as threatening the life of the enterprise. But a strange thing happened at the announcement: the U.S. side seized upon this with a reverse grip and attacked, saying: "If Honda can do it, why can't Toyota and Nissan?" As a result, those concerned looked upon Honda with hostility, and the criticism was whispered about that it was "an action, taken with Japan-U.S. friction in mind, to get ahead of the other companies."

This was not Kawashima's real purpose. He poured out his outrage in the following manner on the pages of ASAHI SHIMBUN at the time:

"Both the cooperation with British Leyland and the latest decision [to expand to America] are matters that I have been studying for a long time as part of a policy for the survival of the enterprise in the 1980's. It happened that they were both realized at this time; if anyone is going to act to quiet the criticism directed toward Japanese cars, it should be the major manufacturers, Toyota and Nissan. There is no reason at all for Honda to take the stage."

In short, it was anger at the fact that others had failed to understand the world strategy plan that Honda had built up over months and years, and it was perceived as a treacherous artifice. Because of this Kawashima had to make the U.S. plant succeed no matter what. Although every conceivable survey had already been completed, the planning was carried out cautiously.

Honda invested about \$250 million and constructed an automobile plant on a scale of 10,000 cars monthly production on a piece of land (1.06 million square meters) adjoining the motorcycle factor in Union County, Ohio. But almost all the employees were American, and 50 percent of the parts were U.S.-made as well, and because of this Honda was worried about high wages and low labor and quality, so at the beginning Honda held it to a scale of 800 workers with a daily production of 230 cars. It was very careful: with equipment, for the welding process it installed a "multiweld device" developed by Honda Engineering which can weld in 130 places simultaneously, and it thoroughly applied Japanese-style process conservation and quality control.

Half a year after the plant had begun operation, a surprising bit of news came to Kawashima. General Motors had given its seal of approval to the performance of the "made in U.S.A. Accord," saying: "Having disassembled and analyzed it, there is no difference whatsoever in terms of performance between it and cars built in Japan. It is an excellent car," thus dispelling doubts about the locally manufactured car. Next, as though in support of this, among sales of Japanese

cars in America from January to June of this year, the Accord sales were 114,545 (of which 16,861 were U.S. made): It was running in first place among Japanese cars.

The "extravagant praise" from GM and the actual sales results served as "proof" of Honda's success in local production. With this great feat behind him, Kawashima announced full-scale operation of the U.S. plant at the debut of the Civic, and through that recovered his prestige; he was probably feeling that he had cleared himself of the insults of 3 years before.

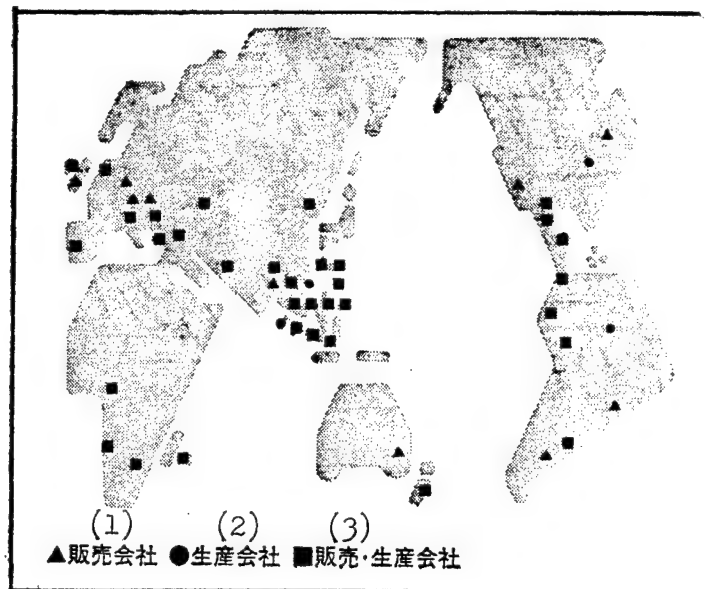


Figure 1. Network of Overseas Sales and Manufacturing Companies

Key: 1. Sales company      2. Manufacturing company  
3. Sales and manufacturing company

#### Superb Overseas Strategy Unmatched by Toyota or Nissan

After America, Honda made its first move in Europe. This came with the announcement that before the end of the year a plan would be signed for joint production of automobiles with England's state-operated company, BL. Between Honda and BL, a "friendly relationship" had developed, beginning the year before last, whereby Honda provided engines and other major components for the "Ballad," and BL produced the cars under the brand name "Triumph Acclaim." Honda is deepening its relationship with BL (through capital participation or joint venture) and is planning a project under which the two companies will develop a new 2000 cc car, the name of which has yet to be revealed, and it is

envisaged that almost 60,000 of them will be sold annually in Europe starting in 1985; this project has become the talk of the industry.

Between Japan and England the long-pending problem of Nissan Motors setting up an automobile factory in England was still dragging on without being settled when the "Kawashima Declaration" announcing the plan to manufacture with BL changed the identity of the leading actor in the Japan-Britain relationship regarding automobiles. Thus Honda got ahead of the others and began constructing bases for its international strategy in the U.S. and European markets.

How did Honda achieve success in projects for local production in advanced countries such as America and those of Europe, when that is considered to be so difficult?

Honda, like Sony, is an international company.

The history of that is shown by the fact that from the time of building a local production "Belgian plant" in 1962 up to now, counting both two- and four-wheeled vehicles, it has built 43 factories in 29 countries. So Honda is proud of the fact that its world strategy is not something that was dreamed up overnight.

It is often said that Honda was fated to "flee Japan" because it was the latest company to get a start on automobiles, but that is not the case. By that I mean that Honda's management strategy changed 180 degrees because of experience in the management crisis of 1954. At that time, founder Soichiro Honda thoroughly indoctrinated all employees in his ideal: "I would like to have people work with the expansive feeling that the Honda Man is not Japanese, he is a citizen of the world"; and the other founder, Takeo Fujisawa, also believed, concerning management policy, that when depending on the market in a single country, "the enterprise is controlled by the business policy of that country and we faced the kind of crisis we have today." Thus he adopted a policy of dispersal leading toward exports and the building of overseas production bases. These have functioned until today as Honda's consistent principles in the formation of an international enterprise.

Over this period Honda has gone to a lot of trouble to challenge the international market, but the first barrier was the Isle of Man race. Honda pushed its motorcycles to the utmost in order to obtain world recognition, but here Honda learned a lesson more important than victory.

That is, the first time Honda took part in the race, it was welcomed by the Europeans, but when it was victorious and won "praise" and overwhelming victory, the Europeans changed to "rejection" of the Yellow Peril, saying "the Yellow Peril has come." The Honda credo, "there are no national boundaries to good products," meant nothing

at all to the closed nature characteristic of Europeans. When the local corporation, "Belgian Honda," was set up in 1962, it had the same experience, a series of failures.

Fundamentally, in the undercurrent of the European economic structure, a closed market mentality remains prevalent. There, they have a tradition of shunning the products of other countries, a conservatism, as symbolized in the EC grouping, which shuns the inflow of merchandise from outside, and all sorts of closed qualities, such as those regarding race, exist among them. One can probably say that it is natural that Honda failed when it leaped in without knowing this.

Even today, as can be seen from the Japan-Europe automobile friction, when one goes to the trouble of going there to sell Japanese cars, the expansion of the market is soon snipped in the bud by pressure from conservative trade factions. Due to illogical emotional arguments, the trade friction shows no sign of diminishing.

That is precisely why Japanese manufacturers were bitter, saying, "what is wrong with exporting inexpensive, good-quality Japanese cars?" The reason for the strength Honda currently displays as an international enterprise is found in the fact that it has experienced such bitterness for over 20 years.

Due to limitations of space, I will limit the discussion on how Honda surmounted these "obstacles," but one thing that can be said is that the rich experience gained through a long history of bitter struggle, the tactics derived from know-how, in other words, its mode of behavior, has resulted in Honda taking a very soft strategy of being assimilated into the local area, based completely on the premise of "coexistence and coprosperity" rather than that of "rule by force." One can say that Honda has developed into a "pro" in overseas strategy.

The secret underlying the success of the Ohio plant and the friendly relationship with BL is that automobiles were placed on a track of overseas strategy which had been laid down for two-wheeled vehicles. Moreover, these ventures were clearly arranged as platforms for the next great leap, so it appears certain that in the future Honda will advance to multinationalization as an auto maker using these as stepping stones. Preparing for the coming age of internationalization, Kawashima said: "We are also making efforts toward automation on the equipment side, and we are studying approaches to the automated assembly that will be needed in the future in local production"; it is probably safe to regard this statement as being directed toward construction of the next strategic base.

At the beginning of this year, Honda concluded a contract for technical cooperation in the production of two-wheeled vehicles with a state-operated two-wheeled vehicle manufacture in Zhongjing, in Sichuan, China.

This means that Honda has gained a major foothold in China, which can be anticipated to become a huge market; probably here, too, a strategic base for automobiles will be built after a while.

The Latent Power of "Honda Technology" Reinforced by Development of the "City"

"The City is a marvelous car; it shows clearly the value of Honda's ideas and daring."

Vice President Yutaka Kume, who is seen as the next president of Nissan Motors, used this extravagant praise to rouse the Nissan Man, who had fallen into inactivity. As he pointed out, there was great risk to Honda management in the development of the "City."

"Is it a home run or a strikeout?"

That is what President Kawashima muttered at the debut ceremony for the unusually tall "City" on 29 October 1981. The management team had bet everything on this "City," which looked exceptionally youthful among the Honda cars.

That is because at that time all the automobile companies were concentrating on fuel costs, making cars lighter, and designs with low wind resistance; they were all putting out cars with low profiles and the same look. The City was developed by completely ignoring the existing concepts of cars. In other words, contrary to the image of cars up to that time, the "City" was the sort of "tall boy" (gangling youth) type which made you think it would fly away if you blew on it.

Traditionally, Japanese display strong rejection of departures from tradition and of casual ideas. Therefore, the City is really a strange car when considered on the basis of the idea, common until now, that in cars a low profile is stable and decreases wind resistance. There was a touch of uneasiness as to whether the car would actually be accepted.

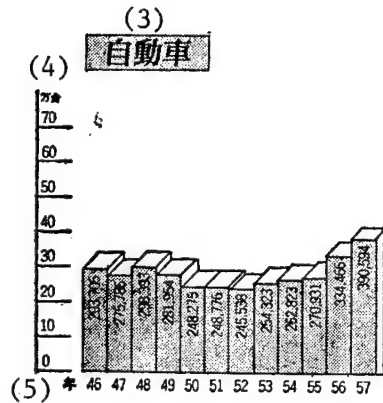
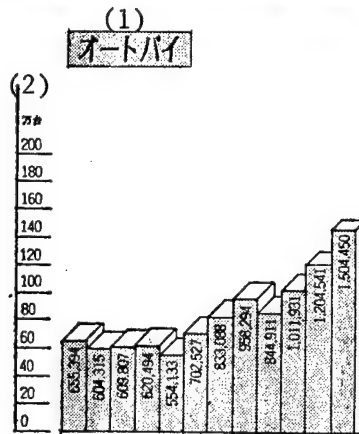
From the very beginning, Honda had traditionally broken with established concepts and looked at things ignored by others, and had made that into its product strategy. But this was too much. It was not only Honda's managers; all the members of the mass media who had gathered for the debut took notes in a state of semi-disbelief.

As soon as the City was unveiled, it exploded in popularity; it was a big hit, with monthly sales running to 20,000 cars; to put it in Kawashima's idiom, it slammed a home run and today is firmly established as belonging to the new generation.

Why the City? In order to unravel this question let us reconstruct the drama of the City's development.



# 国内販売台数



# 海外販売台数

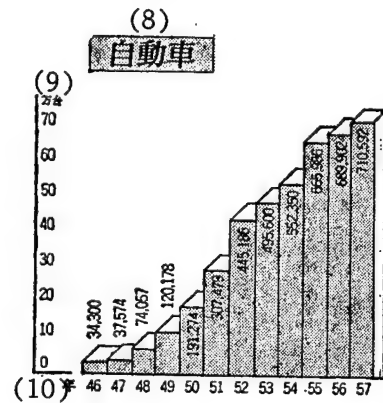
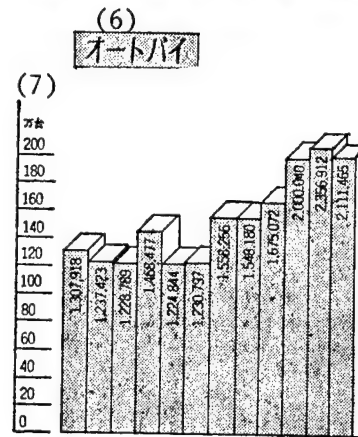


Figure 2. Number of Vehicles Sold Domestically

Figure 3. Number of Vehicles Sold Overseas

## Key:

- |                                  |                                  |
|----------------------------------|----------------------------------|
| 1. Motorcycles and motorscooters | 6. Motorcycles and motorscooters |
| 2. 10,000 vehicles               | 7. 10,000 vehicles               |
| 3. Automobiles                   | 8. Automobiles                   |
| 4. 10,000 vehicles               | 9. 10,000 vehicles               |
| 5. 1971, 1972, etc., to 1982     | 10. 1971, 1972, etc., to 1982    |

It was 1978; "We've got to do something...." Kawashima and the other Honda executives felt a sense of danger, a sense that over the years the Civic and Accord had somehow taken on an air of middle age and that Honda's youthfulness was being lost. It was just about the time of the changing of generations, when members of the postwar generation

were beginning to outnumber those of the prewar generation. "That's it!" If they set their sights on the change of generations, they might be able to create a new means of transportation which would revolutionize city life itself. For that, if they let young designers of the same generation freely make a car for themselves, they would be able to make something. Let's take that "chance" and see what happens. Thus the council made its decision and immediately chose the youngest group from among the Honda design developers, whose average age is 27, and Kawashima and his team made it a rule not to interfere at all in their work.

The action of the young development group commenced. First of all, they dissected the image of the car they would develop toward active young people with urban sensibilities. That is, rather than a car that would suit just anybody, they aimed at a certain kind of people, the number did not matter, who think alike or who seek the same life-style, who think "this person understands" a car with that kind of clear-cut styling.

The story is that they started out from "zero," without imitation or "application" and without being led astray by existing theory or technology.

The vectors of design thinking were brought together around the idea of "building a luxurious subcompact"; and as a result, the question of how to achieve "the smallest possible structure with the greatest possible performance" became the theme to challenge.

Naturally, commonsense theories would be of no use in fulfilling this unreasonable assignment. In order to make it both small and powerful, it was first necessary to raise the combustion efficiency of the engine. To do this they thought up the "convacs engine" for achieving complete combustion. Of course, at the engine development stage, they simplified all the functioning parts in order to make the structure as small as possible.

Next, when they were seeking the highest performance, they got the idea of the gangling youth style which would provide a lot of inside room. The problem was stability and air resistance. After considering all sorts of tests and creations, they pinned it down to deciding it on the basis of where the center of gravity lay when the car began to run, and on whether or not the body was holding tightly to the road at that time. A new suspension was quickly developed which met these requirements, and even a new radial tire was developed.

Up to now the force of air has only been talked about in terms of a coefficient of drag (CD), but actually all sorts of things can be cited as factors in the air's resistance to cars, such as a coefficient of lift (CL) and also a coefficient of yawing movement ( $C_Y^V$ ). The

staff considered these forces of air overall, and in dealing with this they discovered a new theory of air power whereby even a tall car is possible.

One idea led to another, from the initial wide body motorscooter model, said to be the world's first of its kind; to the time when the city was completed, by then there were about 90 patents.

Not only was the City's development entrusted to youthful tastes, but its advertising as well: a car that changed the sense of value of a small car and which redeveloped individual concepts. How could they make people feel the individuality that the City radiated? The building of its image began a year prior to its debut. A television commercial with "Madness," a funny, energetic and delightful seven-person musical group, was used. What the young advertising men emphasized was "rhythm." They were confident that it could characterize the City if it had rhythm. This PR tactic was right on target; at one leap it made the City famous throughout the country, and it finally ended up setting a monthly sales record of 20,000 cars.

This story has been used to represent Honda's management strategy, because in this car was concentrated the management thinking of Honda since its founding. That is, unique ideas, youthfulness, a fighting spirit, creativity; whichever you choose, these elements of Honda's tradition were brought to life in this car.

#### Honda's "Super Idea" Management Is Alive and Well

Even in flattery, the City could not be said to have a dashing style. But in that can be seen a truth that is characteristic of young people: while they long for a dashing outward appearance, deep down, they are seeking realism. In a sense, to the new generation, cars are looked on, not as status symbols, but as tools for everyday living.

Honda foresaw this and boldly turned its thinking toward "a car style which can create a new demand" instead of conforming to the existing market; then it made new discoveries and was able to guide the project to success. It can probably be said that Honda grasped the future direction of car design, seized an opportunity to create a market, and demonstrated self-confidence.

A clear-cut concept, typical of Honda, is also reflected in the new Civic and Ballad which have recently been put on the market.

The Civic was introduced 11 years ago, and at that time it was almost too daring; with a two-box type body, front engine and front-wheel drive, lateral engine placement, and a strut system four-wheel independent suspension, it was an original car which broke from the contemporary rules of common sense. Its advanced qualities pioneered a new market for two-box type body, front-engine, front-wheel drive cars and paved

the way to today's basic car. It is "a car which has performed meritorious service." The new Civic can probably be called a perfected version of this car.

Its development concept was the idea of M and M (man: maximum, mechanism: minimum). To put it in an extreme way, one can say that the ideal for a car is to run with nothing but living space; the Civic approaches this ideal by maximizing the space for human beings and minimizing the space for machinery.

In other words, the new Civic aims at easy driving. From now on, cars are sure to move in the direction of being easier and easier to drive. When one says "easy," most people think of a boring car, but let people with more skill enjoy something at a higher level; the new distinctive quality of the Civic is that it has been developed as a genuinely easy driving car that can be driven even by those with little mechanical aptitude. This, too, can probably be said to be a product of Honda's ample technology: its engine, which produces 100 horsepower with an exhaust volume of 1500 cc, is the same type as the F1 (650 horsepower, 1500 cc), of which Honda is proud, and the car is completed with strong feet (suspension).

Whichever you choose, there is always clear conceptualizing in the development of Honda's new cars. The Biga (1800 cc car), which came out of that amazing crystallization of technology, the F1, possesses "speed and a high level of safety," having a new valve cross-flow engine and Japan's new four-wheel antilock brakes to match this high performance. And Honda is making approximately 40 percent of the body of the new Ballad Sports CR-X out of plastic (the lower portion such as bumpers), boldly striving in the direction of cars using new materials which are light and extremely hard; with ideas such as these, Honda's "super idea" management is still healthy.

Another fact of Honda management is the "snapping turtle attack" which does not let go once it has seized on something. In its overseas strategy up to now, too, once Honda expanded to a place, it did not retreat no matter how great the obstacles, it hangs on tenaciously and ends up putting down roots. Honda's prestige as an international enterprise derives from the fact that it has firmly established each of its territories in this way.

Its manner of winning the "HY war," which was the subject of a great deal of talk this spring, is another example. If we search for Honda's origins, it sprang from two-wheeled vehicles, and since the 1940's it has preserved its position as leader in that industry. Receiving a fierce challenge to its territory from Yamaha, it stood up to fight against this; it was a struggle for first place in domestic sales of two-wheeled vehicles.

At the beginning of 1981 the market shares for the two companies were: 39.3 percent for Honda and 36.3 percent for Yamaha, a difference of

only 3 percent; at this point Yamaha's management was certain that "we can do it," and attacked with a great reduction in prices. But hold on. Just at that time, Honda learned that Yamaha's inventory was overflowing and its management was in disarray. As a result, Honda opposed Yamaha's ploy and in 1 year placed on the market 45 new types of vehicle, crushing its opponent's 27 types with volume; although it was called a war, it was no contest from the very start.

Honda has never been fond of fighting with other companies. In this can be seen its self-confidence in autonomy and independence, but it showed beyond doubt in the "HY war" that it is not so easygoing that it will forgive an invasion of its territory by an enemy.

The war was so fierce that a rumor spread that it was a battle to avenge Hiroshi Kawashima (currently vice president of Daiei, Inc.), younger brother of President Kawashima, who was once driven out of the presidency of Nippon Gakki Co., Ltd., but President Kawashima laughed this off, saying: "I make a clear distinction between business and private matters."

Kawashima is young, 55 this year. But in order to preserve the Honda tradition of "youthfulness," he voluntarily ended his 10-year term as president and passed the baton on to managing director Tadashi Kume, opening the way to the next possibilities.

#### Company Policy, Philosophy

Tokyo ZAIKAI TEMBO in Japanese Dec 83 pp 66-72

[Article by economic journalist Setsuo Mito]

[Text] Honda's taste for festivals is well known.

On the occasion of Honda's 15th anniversary in 1963, all its employees sallied forth to Kyoto, shouting happily: "Let's have a Kyoto night on the town." The cost that night actually amounted to 100 million yen.

When it comes to boisterous festivals in which people shout to friends to drink and sing, when it comes to organized group tours, it is common for people to make unsightly spectacles of themselves, having abandoned their inhibitions while on a trip, but on that night in Kyoto it was the Honda group of people led by Soichiro Honda, who, since the time of the workshop in Hamamatsu, had carved into his brain the words "from an international viewpoint." The Honda recreation strategy, which is characterized by meticulous planning and thorough preparation of the employees from headquarters, factory and shop for wholehearted enjoyment, like fireworks that explode in the sky with a bang and soon vanish, requires far-sighted, perfect planning.

Although we say far-sighted, meticulous planning, if we are to reveal the secret, what constitutes the driving force is the Honda Man's high-spirited sense that every member of the company takes part in planning recreation, and the things that bring that about, the attitude of respect for human individuality and the pleasure of accomplishing great tasks through teamwork which cannot be experienced by a lone individual, these multiply each other and foster the Honda Man's love of festivals and celebrations. Already, through all sorts of festivals, it has strengthened the morale and social nature of individuals and of the organization.

The adventurous spirit of Soichiro Honda, who, while seeking the highest performance engines in the world, challenged F-1 (formula one) racing and brought his desire to realization, and the romanticism of Takeo Fujisawa, who created the "Honda Land" playland equipped with the Suzuka Circuit, an international race course--these two founders were filled with an entrepreneurial spirit, but was not the extraordinarily vast "sense of fun" which the two possessed the probable source of their inexhaustible energy?

Creating products which customers can enjoy, which they can have a good time with, is bound to be the essence of the life of an enterprise. The two founders racked their brains thinking of how to build a leisure land that would make the customers' dreams come true. Such were the two founders.

Since the two founders are like this, it is also natural that the second line of managers, led by Kiyoshi Kawashima, would be people who liked amusement, festivals and adventure; that, indeed, can be considered to form the driving force for Honda vitality.

This year marks the 35th anniversary of the founding of the company. It is truly an opportunity for festivals. As though eagerly awaiting it, the representatives of various employee recreation groups, which extend to every nook and cranny of the Honda group, came together and planned a great event to celebrate Honda's "Founding 35" (1948-1983). About 20,000 people, strictly Honda staff, gathered in the "Honda Land" that contains the Suzuka Circuit and held colorful ceremonies.

The main events were the "All-Company NH Circle Meeting" (known in other companies as QC), the "Idea Contest"--commonly referred to as the "aikon"--and the ceremony to celebrate "Founding 35"; these were held in a lavish manner at "Honda Land" on 14 and 15 October. There, Honda vitality could be seen in concentrated form; I felt as though Honda vitality had exploded before my eyes.

The grand event that marked the big climax of the festival was a ceremony held at a Suzuka Circuit wrapped in rain and dark of night; it was the drama of the change of top executives. On a platform constructed

in the center of the racecourse, the new and old presidents, Tadashi Kume and Kiyoshi Kawashima, shook hands, and the passing over of power to the new generation, which has its eyes on the 21st century, was conducted before an audience of 20,000, all of the Honda staff members.

Three days earlier, on the evening of the 12th, the day on which the sentence of 4 years' imprisonment was passed on former Prime Minister Kakuei Tanaka, a press conference was held at the Tokyo Palace Hotel regarding the change of company presidents. Even there it was possible to catch a glimpse of the essence of Honda vitality.

Kiyoshi Kawashima, who was giving up the position of president, was 55, born in 1928; Tadashi Kume, who had newly arrived at that position, was 51 years old, born in 1932. Both of them are young. That is the point on which the reporter's questions concentrated.

[Question] "Fifty-five is too young for retiring. What do you want to do after this?"

[Kawashima] "If you are a company president for 10 years, you burn out. I've been doing nothing but discharging electricity, so I want to rest and charge my battery for a while."

[Question] "What does a director and chief adviser do? What sort of advice will you give to the new president to help him out?"

[Kawashima] "After becoming president, I didn't receive one bit of advice telling me to do this or do that. And that was a good thing. I do not think it is a good idea for former presidents to make comments on management, even if the advice is given with good intentions."

In order to avoid having a former president getting involved in management in any way at all, Kiyoshi Kawashima chose the path of real retirement from actual work by not even taking the position of chairman. There was the model of Soichiro Honda and Takeo Fujisawa, and he followed it.

Honda's new management setup will be developed around the new president, Tadashi Kume, and the new vice president, Koichiro Yoshizawa (born in 1931, he has a long career directing the vanguard of operations). Kawashima, whose career includes 10 years as president, showed warm consideration for the two when he said: "As you know, the two of them are terrors at home, but they don't have much experience outside the company. Please help them all you can."

On the other hand, the part of the new president's talk that made an impression was his frank attitude: "I am very clumsy, the only amusement I have is taking a drink," and his determination: "The strength of Honda's youthfulness is instantaneous strength. To that I would like to add tenacity and vitality."

In the Kawashima era at Honda, added to the instantaneous strength of a mad person, a management system was established which was able to overcome danger through team play; furthermore, a policy was established for management strategy capable of defying danger, and the company's endurance, tenacity, and one might say overall economic power, rose markedly. In order to emulate the talented leadership of Soichiro Honda and Takeo Fujisawa, Kawashima probably thought it best to devote himself entirely to the establishment of a system of group leadership by individual executives and to perfecting system management.

While grappling with that grand theme, Kawashima solved in succession the issues of the plant project in Ohio, the cooperative project with England's British Leyland, and increased sales from 400 billion yen to 1.8 trillion yen; in doing this he achieved almost all the goals he had set out to accomplish, and then he left the stage. It seems to me that compared to the inspired management of Honda and Fujisawa, wherein risks were challenged, the feeling of stability has risen quite a bit. The words and tone of Soichiro Honda when he was asked for his impressions at the main stadium during the ceremony to commemorate the "Founding 35" are interesting.

"That fellow Kawashima is haphazard; he had such close escapes I couldn't bear to watch. Things probably worked out because all the employees tried their best."

There was a succession of explosive laughs. Soichiro Honda's every action, speech and word becomes a picture or a bon mot. He is manly but self-conscious; this speech of Soichiro Honda's was the best he could muster for his beloved disciple, Kawashima; it was a tribute.

Both Soichiro Honda and Takeo Fujisawa burned themselves out completely and left the stage of management. Now Kiyoshi Kawashima, too, has become burned out, both mentally and physically, and he has departed. "Company president, burn out and leave!" is a proverb of Honda management.

Honda has a lot of unique expressions which stir the imagination.

Due partly to the fact that Soichiro Honda and Takeo Fujisawa did not like to express their ideas in writing, a "Honda Language" embodying their ideas has been created in various forms by their successors. Of course, when we look at the case of Fujisawa, in regard to important problems for the company, he shut himself up alone for days on end and polished his ideas, concentrating on one point, lost in thought. The "expert system" (system of qualification based on professional specialization), which is one of the advantages and strengths of Honda, is derived from Fujisawa's genius.



As one definition of Hondaism there is the company policy of "our company adopts a world viewpoint and has produced inexpensive, high-performance products in response to customer demand." And there are the expressions called "Our Company's Operating Policy," for the purpose of developing it and bringing it closer to actual practice--that is: (1) always to preserve dreams and youthfulness, (2) to love our work and make our workplace cheerful, (4) to establish a harmonious work flow and (5) not to neglect ceaseless research and effort.

Every one of them is simple, without any display of eccentricity; these words probably do not bring to mind Honda's image as a "wild youth," a "lone wolf" or "someone who flouts convention."

But the "multiplication effect of individual play and team strategy" which is the essence of Honda is born of the free and natural air all around. The wonder of Honda and its fierceness is found in the fact that its employees take these ordinary "company rules" and "Our Company's Operating Policy" as they stand and delve into them, not in the so-called Japanese fashion, as public statements of high principle, but making them part of their own flesh and blood as words embodying their real intentions.

The interpretation of Hondaism is permitted freely to each individual Honda Man. Among the words of Soichiro Honda are wise sayings such as, "don't imitate people," "don't rely on government offices," and "work for your own sake," but the Honda Men are also free as to which one of them they will choose and put into practice. Of course, each person is also free to coin his own Hondaism and to carry it out.

In the era of Honda and Fujisawa there was no table of organization. Even now, while there are things that resemble a table of organization, they are constantly created only to be destroyed and have others made, so there is nothing fixed. All Honda has is a table of data relations (which shows the basis for a rapid flow of information).

Honda does not have the sort of fixed job description that other companies have. The work is a flowing stream, and one does it together with the people from the earlier process and those from a later process; and not only the people just before and behind: at any time it may become necessary to leap over them, or those to right and left, to make a cooperative play.

Thus Honda management has put its ideas into practice, believing that a form which is elastic, flexible and perfectly free is best.

Seen from the outside, Honda Management is extremely risky. But the real height of Honda management lies in being truly conscious of this risk and in overcoming the danger and progressing by concentrating the strength of one's entire body.

The grandeur of the entrepreneurial spirit of the Honda-Fujisawa era was extraordinary, but, as you know, the management setup was not 100 percent safe, so they were forced to cross dangerous wooden bridges. Later, when the Kawashima era arrived, the scale of the enterprise increased and a full supply of talented staff was added, so they constructed stone bridges by which to cross; that was the far-sighted management of Kawashima. The stone bridges were not crossed without gain.

One of the first-class items of Honda software to alleviate these dangers is the "male humanism" which is Hondaism.

The original sources of all Hondaism are found in the "humanism" of Soichiro Honda and the "romanticism" of Takeo Fujisawa. Depending upon the person doing the interpreting, the ratio of nourishment from the two sources might be 50/50, or 70/30, or 40/60; the two are mixed together freely and one's own Hondaism takes shape. "Male humanism," too, is one of these and contains qualities which are entirely typical of Honda.

The effect of "male humanism" is as follows:

No matter how wild and free Honda may be, the foundation of Honda management rests upon the "lifetime employment system," the "salary according to seniority" and the "enterprise union" which are the basis of Japanese culture. But in the philosophy and policy which applies them, there can be seen a stronger belief in individual responsibility and the merit system than one finds in other companies. This really is true, the belief in selecting executives from among younger employees is especially striking.

An extreme example is the changing of the former and new presidents, who are both in their 50's, and at Honda, managers born since the mid-1930's are now approaching the highest position. Executive director Shoichiro Irimajiri, who stopped Yamaha in the "HY war" was born in 1940, and executive director Kawamoto, who similarly embodies the spirit of the technician which is a Honda tradition and who leads the field of research and development, was born in 1936. There is no other example like this in Japanese big business. In the case of Toyota and Nissan in the same industry, except for the top executive of Toyota, the executive staff all belong to the "promotion by seniority type."

It can probably be said that it is the very vitality of Honda, as symbolized in the youth of its executives, that is the prime source of strength which enables Honda to compete with Toyota and Nissan, which are two or three times bigger.

The youthfulness of the executives is all well and good, but to smoothly make personnel choices that are contrary to the conditions of Japanese

organizations or the way in which enterprises do things is a very difficult matter. The usual Japanese enterprise would say, "it may have advantages, but the disadvantages are greater," and would not dare to take such action. Honda has cut through such considerations--that is the remarkable point

But even Honda is not without discord concerning the selection of personnel. Even a Honda Man is human, so if someone who was hired at the same time becomes a division chief or a director, or, like Shoichiro Irimajiri, becomes an executive director, the people who watch this cannot remain calm in their innermost thoughts. It is natural for them to feel envy and jealousy, and at times their irritation may become manifest on the surface. It can probably be said that the prop which makes it possible to recover serenity of mind at such times is "male humanism."

One is apt to fall into despair, thinking: "That son of a gun made executive early. I've fallen behind him." But at that point one endures through "male humanism."

"It goes without saying concerning company presidents, but if one becomes an executive he usually burns out and disappears. The son of a gun can burn himself out quickly for all I care. I'm going to show him by taking my time and getting a specialized (expert) position and survive for a long time, and if possible, in comfort."

Human beings are self-centered, so they always interpret things in the way that is good for them. When they gradually come to comprehend even dimly the magnitude of the responsibility borne by the other party who has become an executive, they come to their senses and even come to encourage the other party.

Honda executives are in the position of being in a war and of always being in the first line of battle, the first to fall with an enemy bullet in their bodies. It has to be like that. That is the tradition of Honda management since the time of Soichiro Honda and Takeo Fujisawa. Judging by the actual record of Kiyoshi Kawashima, the term of office for a company president is 10 years, but it is not an easy task for Tadashi Kume to complete that in the same way. The term for an executive is also considered to be a unit of 10 years. There is a customary rule that one retires if, 10 years after being made a director, one has not been promoted to executive director. As Toshio Tsuchimitsu was fond of saying, "being an executive is a tough job."

Of course, if excellent brains keep dying off in a war, it is inevitable that the war will be lost, but in business wars no one dies from being struck by a bullet. Honadaism specifies that the managers who stand in the front line always volunteer bravely for the bullets, which are data, and try to catch them.

There are various spheres for the application of "male humanism."

Competition and discord occur even among the executives who have been chosen.

As a rule, Honda executives do not serve as assembly line chiefs. As pure managers they must spend their entire 24 hours a day mulling over, "what should a manager do?" and "what should our enterprise be like?" They stand on the spot in the frontline (factory, shop, laboratory, overseas, etc.), and gather raw data and put their imaginations to work to turn it into their own organic data. Then they return to the Big Room executive office and provide each other with data and, using their individual thinking, they raise the temperature of debate and finally bring it to a decision.

Formerly, executives had specializations as "people, things," or "money," but now there is only a division of roles by market. Executives seek new fields and also trespass on each other's fields, spurring each other on to greater accomplishments.

The Honda style of doing work regards it as strange to have boundary lines around one's field of work. The work of executives is all the same; using "male humanism" they try to trespass on each other's work.

At the press conference, new President Tadashi Kume clearly said: "I have received training from the founders, Soichiro Honda and Takeo Fujisawa, and I have been guided directly by former President Kawashima. I shall carry on the management principles of these two generations"; then he stressed, as mentioned above: "I shall add tenacity and vitality to the instantaneous strength of youth."

As to strictly carrying on the management principles of his predecessors, this sounds commonplace, because new presidents of other firms also say the same thing, but it has a special ring in the case of Honda.

That is because there are a great many things for Tadashi Kume to carry on. There is a mountain of things he must quickly be seen to be doing, not as pious platitudes, but in actual practice. The words, "carry on the management of the former president" as said by presidents of other companies is perfectly fine as a splendid statement of public principle, but that is because it is no more than carrying on so-called "management for the sake of appearances," without carrying things out in practice.

Saying that there are many projects which Kume should carry on means that he has received a great deal of work deriving from the ideas of the previous president; there is a tendency to think that the sphere in which Kume can display originality is reduced to this extent, but actually that is not the case.

Because Honda and Fujisawa did it, because Kawashima did it, it will be hard for Kume to do: it is to be expected that such short-sightedness and superficial thinking does not exist in Honda management. The ones who brought to realization the essence of the technology conceived by Honda was his successors of the Kawashima team, and what placed the plan for the Big Room executive office, Fujisawa's idea, on track, was also the efforts of those who came after him.

Near the end of his term as president, Kiyoshi Kawashima decided to make a Honda comeback in "F-2" and also "F-1" racing. If one enters a race, one has to win. At present, under the new Kume setup, the company must firmly establish the foundation of winning in the "F-2" and must become champion in the "F-1" at an early opportunity.

To the new management team, the tasks which they have inherited from their predecessors might be called precious stones which are to be polished, a valuable inheritance.

When it came to retiring from his position as president, Kiyoshi Kawashima meditated anew on the fact that "an enterprise is people." To take just one example: the full story of Honda's "multiple duty system" (within the company it is called the "circle W") which was first proposed by Kawashima and for which he is said to have gotten his inspiration from naval style management has yet to be told.

The (W), while stimulating and complementing the "expert system" qualification system), which has already been operating organically within Honda, also holds the potential for bringing about a new management revolution.

People in project teams leave their homes temporarily to achieve their projects, but the members of the (W) stay at home and grapple with a second or third task, using their achievements and experience. Through the (W) they are trying to develop types of specialized jobs which could not be covered under the qualification system in use up to now. It is possible that through the (W), individual pride and the vitality of the organization will increase.

For one thing, there is actually a "god of sound" who can tell the condition of an engine just by listening to it, and there is also an expert on the protocol of Japanese etiquette. There is even director Fumio Mukoyama, for example, who registered with (W) by saying: "I am a specialist in funerals." Presumably Honda has many experts on festivals. The system is an attempt to actively evaluate the "symbolic managers" who make up Honda's enterprise culture. It attempts to utilize high-level experts as assets of the entire company. "Enterprises are people." Representatives of 11 nations around the world gathered in "Honda Land," giving it a very international flavor; it led Soichiro Honda to say: "It's like a dream. I feel like I've been bewitched by foxes."

Five years, 10 years beyond the new president, Tadashi Kume, there lies a theme with many dreams, the creation of a "world enterprise of a different dimension"--to be precise, an extremely "humanistic world enterprise" which cannot be achieved by either a U.S. world enterprise or by any of the Japanese enterprises which aim at becoming world enterprises, one which can only be realized by Honda.

#### Subsidiaries, Affiliated Companies

Tokyo ZAIKAI TEMBO in Japanese Dec 83 pp 74-78

[Article by journalist Goro Ota]

[Text] The "Nucleus": the Honda Technical Research Laboratory

Honda's top subsidiaries are enterprises connected with research and development: the Honda Technical Research Laboratory (president: Shigeru Shinomiya; capital: 3.6 billion yen), Honda Engineering (president: Nobuyuki Otsuka; capital: 1.2 billion yen), Honda Vaporization Laboratory (president: Kimio Shinmura; capital: 50 million yen), and Honda Product Laboratory (president: Toshitsugu Baba; capital: 100 million yen).

Among them, the one which has come to bear most of the burden of Honda's highly creative development of technology and of products is the Honda Technical Research Laboratory. The Honda Motor Co. was established in 1948. Soichiro Honda set it up with a capital of 1 million yen, after having dissolved the previous "Honda Technical Research Laboratory," which he had established in 1946; the Honda Motor Co. was established in Yamashita-cho in Hamamatsu city to carry out research on the manufacture and construction methods for internal combustion engines and internal combustion vehicles. On the basis of the name, Honda Technical Research Laboratory is all of 2 years older than Honda Motor Co. It is Honda's "roots," so to speak. The content of its work, to put it briefly and simply, is to receive assignments from Honda Motors, to carry out research on technology and products, and to provide plans on the basis of the results of such research to Honda Motors.

This means that, in contrast to the case of other manufacturers such as Toyota and Nissan, which make the laboratory part of the internal company structure as a research department for technological development, at Honda it is a separate company. Why has it been given this form? It is the belief of Soichiro Honda that when technicians are under the same roof with the management and other departments, distractions come in from all sides and it is impossible to carry out satisfactory research. Therefore, one should make the research and development department independent, so it can concentrate on its work.

Here, too, Honda's unique way of thinking can be seen. In regard to the operation of the Research Laboratory, it receives a fixed proportion accruing from the sales of the manufacturer for expenditure on research and development. Consequently, if sales increase, the expenditure on research and development inevitably increases, so still better products are conceived and become, in turn, the driving force to increase sales.

This year, with the object of strengthening product development, Honda raised the assigned research expenditure given to each laboratory from 4 percent of sales to 5 percent. Since the company's expected sales for the February 1984 period are over 1.8 trillion yen, the prospects are that the total amount of expenditure on assigned research will be 100 billion yen (48 billion yen in the first 6-month period and 52 billion yen in the second 6-month period).

Over 90 percent of this will be poured into the Honda Technical Research Laboratory. In the case of the two major companies, Toyota and Nissan, the proportion of sales given to expenditure on research is about 4 percent, so the importance Honda gives to the field of research and development is very clear.

The organization of the Research Laboratory is divided into design departments for engine design, car body design, chassis design, body design [as published], and design planning; research departments for engines, the total car, and materials; and supporting management departments such as management of the daily agenda, general affairs, and machinery for trial manufacture. Activities are carried out efficiently, being divided between basic research which is R (research) and product development which is D (development). For instance, in the various design departments such as engine and chassis design, questions such as "the nature of the engine of the future" or "what materials should be used" are studied as the daily R&D activity, and the basic research dealing with creation and development of new technology is carried out from a pioneer standpoint.

The Honda Technical Research Laboratory is divided into the automobile section--the Wako Laboratory--and the two-wheeled vehicle section--the Asaka Laboratory--with each carrying out work in a specialized way. In the beginning, research for both two- and four-wheeled vehicles was carried out at Wako, but with the major expansion into automobiles, the speed of development for two-wheeled vehicles slowed down. Also, the product cycle for two-wheeled vehicles is shorter than for cars, and one must go on developing new products one after the other, so in 1973 research on two-wheeled vehicles moved from Wako to Asaka; it goes without saying that this became the driving force to win in the so-called "HY war" against Yamaha this past year or so. In addition to having established the American corporation, HRA (Honda Research of America), in California in order to strengthen the design department and to study trends in overseas markets, Honda built the "Tochigi Proving Ground" in 1979 as a new test course for strengthening its experimental setup.

And in order to strengthen research and development on general-purpose products such as all-purpose engines, generators for outboard motors, tillers and so on, in 1980 the general-purpose department was made independent of the Wako Laboratory under the name of the Asaka East Laboratory.

#### The Technical Research Laboratory Is the Gateway to the Post of Company President

As the brain trust (think tank) of the Honda group, the Honda Technical Research Laboratory is also the gateway for people who bear the burden of management of the Honda Motors of the next generation. Three generations of company presidents, Soichiro Honda, Kiyoshi Kawashima, and Tadashi Kume, who was recently appointed president, have all served as president of the Technical Research Laboratory. Because of this, the view that "the company president is chosen from among the presidents of the laboratory" has become more or less fixed both inside and outside the company.

Of course, the company denies this: "It is merely a matter of chance that three persons with experience as president of the Research Laboratory have served in succession as company president; it does not mean that there is any particular rule to that effect, and if there is a suitable person, he does not have to come from the Research Laboratory." (chief adviser Kiyoshi Kawashima) But the company also says: "The company is a manufacturer. Whatever one says, the path for survival for a manufacturer is the development of good products. In that sense, a person with rich experience in the Research Laboratory may be best after all." (Kawashima)

In fact, with the new president, too, his image as "Kawashima's successor" has been strong since 1977, when he was appointed president of the Research Laboratory to succeed Kawashima. As might be expected, Kawashima also acknowledges that he had begun to keep an eye on Kume previously, saying: "I had been watching Kume for a long time, thinking that he was suitable for president; he developed nicely as time passed, so, there being an opportune time, I passed the baton on to him." In that case, what about the present staff of the laboratory, and what about strong candidates to be the next president? Since October 1982, Honda Motors Vice President Shigeru Shinomiya has also been serving as president of the Research Laboratory. But it is said that Shinomiya tends to be overly busy with his work at the parent company, and that the ones who actually contribute to the operation of the Research Laboratory are executive director Nobuhiko Kawamoto (47) and director Hiroyuki Yoshino (43), the two vice presidents of the Research Laboratory. Kawamoto is in charge of the automobile department and Yoshino is in charge of the two-wheeled vehicle department. Yoshino, a member of the bright class of 1953, took over the two-wheeled vehicle department as successor to executive director Shoichiro Irimajiri (43) when the latter left to become chief of the Suzuka plant in May 1983.



Of these, the persons considered to be the post-Kume favorites are the two executive directors, Irimajiri and Kawamoto. Both of them attracted the attention of Soichiro Honda and Kiyoshi Kawashima a long time ago and are their proteges; they are rated as having a good deal of the technician's spirit of somehow carrying things through to completion once something has been decided upon. The fact that once, in a battle of words, Kume directly confronted Soichiro Honda, a supporter of air-cooled engines, said that "water-cooled engines are better" and refused to back down, is a well-known episode from the time that President Kume was at the Research Laboratory. Executive directors Irimajiri and Kawamoto are also reported to be quite headstrong in regard to research, and they are reliable; it is almost certain that one of them will be company president in the post-Kume era 10 years from now.

At the Research Laboratory, where the average age is 29, R&D activity is carried out on each project. Soichiro Honda always spurred his employees on by saying: "In R (research) it is all right if 99 percent fails, but be sure to make something of that last 1 percent. But in D (development), the scale of our company does not permit failure. I want you to take the needs of the market and of the era into consideration and always pursue success. Aim for 100 percent success."

The other enterprises on the list, Honda Engineering, Honda Vaporization Laboratory and Honda Product Laboratory, are also unique. They were established in September 1970.

The main task of Honda Engineering is to provide each plant with efficient production equipment such as metal forms (controls) [chiggu], processing machines and welding machines in order to produce properly and efficiently the products developed in the Research Laboratory. The equipment developed at Honda Engineering is given wide dissemination, not only in Japan, but also to production factories all over the world, including the U.S. factory, which supports one wing of the Honda international strategy for two- and four-wheeled vehicles.

In the development of products, Honda employs the "SED system" which is considered to be a doctrine of allotting roles and responsibilities among the three companies, Honda Motors, the Honda Research Laboratory, and Honda Engineering. It is a total system in which S stands for effective production and sales (Honda Motors), E stands for development of production methods and their realization (Honda Engineering), and D stands for ambitious development of creative products (Honda Research Laboratory); within this system the three companies cooperate while mutually complementing each other. If one conceives of a good product, if the cost is too high or the quality is poor, it will not be accepted by consumers, even if it is put on the market. Honda stands on the idea that products must be both good and inexpensive, and it is Honda Engineering that has exclusive responsibility for how to make them.

Equipment and machines developed by Honda Engineering can be seen in large numbers in all the Honda factories; a recent example is the car body welding equipment developed for the American plant in Ohio. It is an automated line which combines four T and T welding units with 67 welding robots, equipment which welds the front, floor, roof, doors and so on, continuously and automatically.

This is one example of what Honda Engineering has succeeded in developing for practical use because of the idea that in order to manufacture cars in America--a place Honda is not familiar with--that have the same quality as those produced in Japan, it was necessary to rationalize and automate the production line as much as possible.

The Honda Vaporization Laboratory was established in September 1974. A carburetor is the heart of an engine, and its mechanism is complicated; moreover, in the case of Honda, there is a wide range of applications, two- and four-wheeled vehicles and general-purpose engines, so the Vaporization Laboratory was established with the objective of strengthening the setup for research and development. This sort of laboratory, devoted solely to vaporization devices, is another thing other companies do not have.

The Honda Product Laboratory was established with the objective of developing all sorts of original products which would further increase practicality, comfort and pleasure in the use of two- and four-wheeled vehicles and enrich the experience of owning and using cars and two-wheeled vehicles.

#### Act Action Which Develops Unique Concepts

At present, excluding sales companies, the number of affiliated domestic companies that have a capital relationship with Honda comes to over 40 Companies with 100 percent Honda capital, aside from those related to research--the Honda Technical Research Laboratory, Honda Engineering, and Honda Product Laboratory--include Honda International Sales (president: Kenjiro Okayasu, a former managing director), Honda SF (president: Ryoza Baba), Honda Credit Sales (president: Tamotsu Nakano), Honda Racing (president: Hiroyuki Yoshino), Rainbow Motor School (president: Shozo Ono), Act Trading (president: Hirohisa Nakamura), Act L (president: Tamotsu Fujiwara) and Honda Lock (president: Hajime Okamura).

Of these, Honda International Sales (HISCO) developed from Honda Used Car Sales, which started out in order to sell the "N360" which was used as the first shot in Honda's real expansion into the field of automobiles in 1966. It was set up as a business for disposing of trade-in cars, an indispensable part of auto sales, along with Honda SF (SF), an after-service business, and Honda Eiken which teaches sales know-how. In February 1973 it changed its name to HISCO, and in July of that year it also started selling Ford cars such as Mustangs and Corinas. However, it did not understand the special class of users of foreign cars, and it ended up withdrawing from the sales of Ford cars. That is, Honda sold a rival's cars. It is an idea unique to Honda.

Major Domestic Subsidiaries of Honda Motor Co., Ltd.

会 社 名	所在地・設立年月	資本金(円)	代 表 者	本田での最終ポスト	事 業 内 容
7) 本田技術研究所	埼玉県和光市 昭35・7・24	36億 <sub>49</sub>	篠宮 茂 <sub>69</sub>	副社長(現) <sub>89</sub>	科学技術の研究開発指導援助 109)
ホンダエンジニアリング	埼玉県狭山市 昭45・9・13	12億 <sub>50</sub>	大塚 伸之 <sub>70</sub>	取締役(現) <sub>90</sub>	機械技術の製造及び技術開発 110)
ホンダインターナショナルセールス	東京都渋谷区 昭41・4・15	9億8千万 <sub>51</sub>	岡安健次郎 <sub>71</sub>	常 務 <sub>91</sub>	自動車の販売 111)
ホンダエス・エフ	東京都渋谷区 昭38・6・32	13億 <sub>52</sub>	馬淵 亮三 <sub>72</sub>	参 事 <sub>92</sub>	自動車の修理及び点検 112)
プレス技研工業	静岡県浜松市 昭51・2・11	8億5千万 <sub>53</sub>	鈴木 宏 <sub>73</sub>	海外生産部長 <sub>93</sub>	自動車部品の製造 113)
精機技研工業	神奈川県秦野市 昭52・11・1	4億9千万 <sub>54</sub>	磯部 誠治 <sub>74</sub>	常 務 <sub>94</sub>	自動車部品の製造 114)
ホンダランド	東京都中央区 昭36・2・34	20億 <sub>55</sub>	小林 隆幸 <sub>75</sub>	常 務 <sub>95</sub>	遊園地・モータースポーツ場の経営 115)
開発総業	東京都中央区 昭34・4・1	5億3千万 <sub>56</sub>	田畑 信彦 <sub>76</sub>	秘書室長 <sub>96</sub>	損害保険代理業務 不動産売買 116)
アクト・トレーディング	東京都中央区 昭47・3・32	2億5千万 <sub>57</sub>	中村 博久 <sub>77</sub>	外国部長 <sub>97</sub>	内外物資の輸入ならびに販売 117)
アクト・マリタイム	東京都中央区 昭48・12・38	5千万 <sub>58</sub>	中村 博久 <sub>78</sub>	外国部長 <sub>98</sub>	海洋運輸業 118)
浅間技研工業	長野県小諸市 昭48・10・2	8億 <sub>59</sub>	水野 鏡治 <sub>79</sub>	パーツセンタ 一部長 <sub>99</sub>	非鉄金属铸件 ダイカスト製造業 119)
鋼管技研工業	三重県鈴鹿市 昭29・3・40	9千万 <sub>60</sub>	長谷 昭次 <sub>80</sub>	資材部長 <sub>100</sub>	パイプ主体の自動車部 品の加工 120)
国際合同電装	東京都渋谷区 昭52・3・42	8億 <sub>61</sub>	池上 秀男 <sub>81</sub>	常 務(現) <sub>101</sub>	外国向け電装部品の製 造 121)
ホンダ・レーシング	埼玉県新座市 昭57・9・12	8千万 <sub>62</sub>	吉野 浩行 <sub>82</sub>	取締役(現) <sub>102</sub>	レース運営とモータース ポーツ用品の製造販売 122)
ホンダエス・アール	東京都渋谷区 昭47・6・43	1千万 <sub>63</sub>	中村三津雄 <sub>83</sub>	販売促進部長 <sub>103</sub>	販促用品の開発販売 自動車の部品用品の販売 123)
ホンダ信販	東京都渋谷区 昭41・4・45	9億8千万 <sub>64</sub>	中野 保 <sub>84</sub>	取締役 <sub>104</sub>	自動販売設備のリース クレジット 124)
本田ロック	宮崎県宮崎郡 昭37・4・5	2億6千万 <sub>65</sub>	岡村 一 <sub>85</sub>	参 事 <sub>105</sub>	メーンスイッチ、ハン ドルロック等の製造 125)
レインボーモータースクール	埼玉県和光市 昭47・6・14	4千万 <sub>66</sub>	大野 昭三 <sub>86</sub>	非公表 <sub>106</sub>	自動車教習所の運営 安全運転普及教育シス テムの開発 126)
ホンダ気化器研究所	埼玉県朝霞市 昭49・9・2	5千万 <sub>67</sub>	新村 公男 <sub>87</sub>	朝霞研究所主 席研究員(現) <sub>107</sub>	内燃機関用気化器の製 造、販売 127)
ホンダ用品研究所	埼玉県朝霞市 昭51・8・48	2千5百万 <sub>68</sub>	馬場 利次 <sub>88</sub>	和光研究所主 席研究員(現) <sub>108</sub>	オリジナル用品の研究 開発 128)

Key:

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| 1. Company name                                      | 31. Shibuya-ku, Tokyo, 15 April 1966                     |
| 2. Location and date of establishment                | 32. Shibuya-ku, Tokyo, 3 June 1963                       |
| 3. Capital (in yen)                                  | 33. Hamamatsu-shi, Shizuoka Prefecture, 11 February 1976 |
| 4. Name of representative                            | 34. Hatano-shi, Kanagawa Prefecture, 1 November 1977     |
| 5. Representative's last post at Honda               | 35. Chuo-ku, Tokyo, 1 February 1961                      |
| 6. Business content                                  | 36. Chuo-ku, Tokyo, 1 April 1959                         |
| 7. Connected subsidiaries                            | 37. Chuo-ku, Tokyo, 21 March 1972                        |
| 8. Nonconnected subsidiaries                         | 38. Chuo-ku, Tokyo, 1 December 1973                      |
| 9. Honda Technical Research Laboratory               | 39. Komoro-shi, Nagano Prefecture, 2 October 1973        |
| 10. Honda Engineering                                | 40. Suzuka-shi, Mie Prefecture                           |
| 11. Honda International Sales                        | 41. Shibuya-ku, Tokyo, 29 March 1977                     |
| 12. Honda SF   | 42. Niiza-shi, Saitama Prefecture, 1 September 1982      |
| 13. Puresu Giken Kogyo                               | 43. Shibuya-ku, Tokyo, 1 June 1972                       |
| 14. Seiki Giken Kogyo                                | 44. Shibuya-ku, Tokyo, 15 April 1966                     |
| 15. Honda Land                                       | 45. Miyazaki-gun, Miyazaki Prefecture, 5 April 1962      |
| 16. Kaihatsu Sogyo                                   | 46. Wako-shi, Saitama Prefecture, 1 June 1972            |
| 17. Act Trading                                      | 47. Asaka-shi, Saitama Prefecture, 2 September 1974      |
| 18. Act Maritime                                     | 48. Asaka-shi, Saitama Prefecture, 2 August 1976         |
| 19. Asama Giken Kogyo                                | 49. 3.6 billion  |
| 20. Kokan Giken Kogyo                                | 50. 1.2 billion  |
| 21. Kokusai Godo Denso                               | 51. 980 million  |
| 22. Honda Racing                                     | 52. 1.3 billion  |
| 23. Honda SR   | 53. 850 million  |
| 24. Honda Credit Sales                               | 54. 490 million  |
| 25. Honda Lock                                       | 55. 2 billion  |
| 26. Rainbow Motor School                             | 56. 530 million  |
| 27. Honda Vaporization Laboratory                    |  |
| 28. Honda Product Laboratory                         |  |
| 29. Wako-shi, Saitama Prefecture, 1 July 1960        |  |
| 30. Sayama-shi, Saitama Prefecture, 1 September 1970 |  |

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|------------------------------|--|
| 57. 200 million              | 90. Director (current  |
| 58. 50 million               | 91. Managing director  |
| 59. 800 million              | 92. Concilor   |
| 60. 90 million               | 93. Chief of overseas production division                                  |
| 61. 800 million              | 94. Managing director  |
| 62. 80 million               | 95. Managing director  |
| 63. 10 million               | 96. Chief of secretariat   |
| 64. 980 million              | 97. Chief of foreign division  |
| 65. 260 million              | 98. Chief of foreign division  |
| 66. 40 million               | 99. Division chief of parts center   |
| 67. 50 million               | 100. Chief of materials division   |
| 68. 25 million               | 101. Managing director (current)   |
| 69. Shigeru Shinomiya        | 102. Director (current)  |
| 70. Hiroyuki Otsuka          | 103. Chief of sales promotion division                                     |
| 71. Kenjiro Okayasu          | 104. Director  |
| 72. Ryoza Mabuchi            | 105. Concilor  |
| 73. Hiroshi Suzuki           | 106. Not made public   |
| 74. Seiji Isobe              | 107. Chief researcher at Asaka Laboratory (current)                        |
| 75. Takayuki Kobayashi       | 108. Chief researcher at Wako Laboratory (current)                         |
| 76. Nobuhiko Tabata          | 109. Assists in directing research & development on science and technology |
| 77. Hirohisa Nakamura        | 110. Production & technological development of machine technology          |
| 78. Hirohisa Nakamura        | 111. Automobile sales  |
| 79. Kyoji Mizuno             | 112. Auto repair and inspection  |
| 80. Shoji Hase               | 113. Manufacture of auto parts   |
| 81. Hideo Ikegami            | 114. Manufacture of auto parts   |
| 82. Hiroyuki Yoshino         | 115. Management of amusement park and motor sports arena                   |
| 83. Mitsuo Nakamura          | 116. Liability insurance agent, real estate business                       |
| 84. Tamotsu Nakano           |  |
| 85. Hajime Okamura           |  |
| 86. Shozo Ono                |  |
| 87. Kimio Shinmura           |  |
| 88. Toshitsugu Baba          |  |
| 89. Vice president (current) |  |

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|---|--|
| 117. Sale & import of domestic and foreign goods                          | 124. Lease credit for auto sales equipment   |
| 118. Maritime freight business  | 125. Manufacture of auto ignition locks, door locks, etc.                                      |
| 119. Manufacture of nonferrous metal castings and die castings            | 126. Management of driver training school<br>Development of safe driving and education systems |
| 120. Processing of pipe auto parts  | 127. Manufacture and sale of vaporization devices for internal combustion engines              |
| 121. Manufacture of electrical equipment for overseas market              | 128. Research & development of original goods  |
| 122. Operation of races and manufacture and sale of motor sports goods    |  |
| 123. Development and sale of sales promotion goods and sale of auto parts |  |

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Honda Land (president: Takayuki Kobayashi) is also unique. It owns amusement parks in Tokyo, Hino city, and Suzuka city in Mie Prefecture which are enjoyed by children, and the same company operates the Suzuka Circuit.

Act Trading, Act Maritime, Act L and the like are remnants of the previous "Act" action. The Act action consisted of a series of projects that sought to nurture venture businesses; it encouraged young people to get ideas freely and to develop them without being confined within the Honda framework. Act B developed a ranch in Iwate Prefecture, raising cattle and selling dried beef and other popular products. An automobile manufacturer raising cattle on a ranch--it is inconceivable for any other company!

At present, Act Trading is carrying on the import and sale of aluminum, lumber, coffee beans and so on, and Act action is revising its line with such projects as Act Maritime which manages freighters specializing in automobiles.

#### Internationalization Also in Related Enterprises

When one looks at the related enterprises of the Honda group, there are surprisingly few which are listed on the stock exchange or with large-scale businesses. About the only listed companies connected with domestic business are Showa Manufacturing Co., Ltd., which makes shock absorbers (president: Torao Tsukata); Keihin Seiki Manufacturing Co., Ltd., a maker of carburetors (president: Shiro Watabiki); and Stanley Electric Co., Ltd., a major manufacturer of headlights (president: Ryuko Kitano). This is due to the fact that since Honda itself was a

late starter in the automobile industry, besides having actively procured parts and materials from affiliated enterprises, it has taken the basic purchasing policy of buying from any place as long as the merchandise is good.

Consequently, Honda does not have a group of cooperating parts manufacturers such as the other car makers have. Of course, behind this is also the fact that, in contrast to the major companies, Honda cannot by itself order in sufficient volume to support its suppliers.

One of Honda's subsidiaries that is attracting attention is Electronics Technology (president: Yoichi Nara). It is a new company, established in 1981, with capital of 90 million yen, a joint venture owned 30 percent by Honda Motors, 40 percent by Oki Electric Industry Co., Ltd., and 30 percent by Keihin Vaporizing Devices. It is a company which manufactures electronic parts for cars. At present it is producing an electronically controlled fuel injection device, "PGMFI," which it developed, and winker cancellers and CDI (noncontact ignition systems) for two-wheeled vehicles, but since it is aiming at developing important electronic components by combining the electronics technology of Oki Electric with Honda's mass production technology, it can be said that in the future it will become "Honda Electric Equipment."

Another noteworthy point is that in response to Honda's expansion overseas as an international company, an enterprise has also emerged that has started overseas production. It is Velma Parts Industry (president: Shunken Amino), which in November 1981 began manufacturing parts next to the automobile plant in Ohio; it is a joint venture, with American Honda owning 80 percent and Tokyo Seat and Sakei Giken each owning 10 percent. It assembles such items as mufflers, brake oil lines, door sashes and foil in America. In the Honda Ohio plant, "Accords" are being assembled at the rate of 300 per day, but around the middle of next year production is scheduled to become 600 per day, a scale of 150,000 a year; in response, Velma Parts has also decided to greatly increase its production capacity.

Up to now Honda has carried out a great deal of overseas production of two and four-wheeled vehicles, but it has tried its best to procure parts locally, and it is true that overseas expansion of related enterprises has not kept up with this.

Perhaps because of this, the new president, Kume, strongly called for strengthening the company and coming to grips with internationalization. "Honda is treading the path of an international enterprise, so I hope cooperating manufacturers will respond to this and promote internationalization. I would also like for you to strengthen our company's structure, and I would particularly like for you to attempt to increase our technical capability."

## ECONOMIC

### FOREIGN MINISTRY FEARS ON FINANCIAL, TRADE FRICTION NOTED

Tokyo KABUSHIKI NIPPON in Japanese 5 Jan 84 p 71

[Text] The situation in the Middle East is steadily worsening, and the cause of the crisis in the Middle East seems to be hardly disappearing. On the other hand, the discontinuation of INF [International Nuclear Forces] negotiations and the deployment of Pershing II's in Europe are causing an unexpected fall of major European currencies, notably the mark, and this devaluation of the mark is slowing down the attempt to strengthen the yen.

Therefore, Japan's 1984 balance of payments is expected to have a plus of \$24 billion, 3 times as much as the plus balance of last year. (Note: plus balance of \$9 billion) The value of the yen is hardly increasing, even though the Committee of Readjustment of the Value of Yen was established when President Reagan visited Japan recently, although the active effect on the value of yen was seen temporarily, as you all know.

"Even though the strengthening of the yen is expected in 1984, it is only expected to happen up to the month of March since the slowing down of high interest rates in the United States cannot be expected. The value of the yen is expected to be between 220 to 225 yen against a dollar. It is possible that this year may not be called 'the year of the strong yen' at the end." This statement was made by a specialist of the foreign currencies exchange of one of the major city banks. Also, among the officials of the Finance Ministry, the expectation for the strengthening of the value of yen is gradually fading.

Then the question is raised as to what the effects on the balance of Japanese foreign trade in 1984 would be and how it would further affect the problem of yen to dollar exchange rate. Within the Finance Ministry, a viewpoint which is becoming very strong is the prediction that the plus balance of Japan's foreign trade of 1984 will exceed the plus balance of last year and will reach \$30 billion. OECD has already predicted that the plus balance of Japan's foreign trade of 1984 will reach \$33 billion. It is said that the Finance Ministry also has a view similar to OECD.

If this prediction is correct, Japanese foreign trade's plus balance will exceed \$50 billion within the 2 years of 1983 and 1984. If the yen rate follows the pure economic principle, the value of the yen should increase and



even go higher than 200 yen per dollar level. It will not be strange if one holds such a view that the yen will stay at the 190 yen per dollar level.

As I have pointed out at the beginning, the yen exchange rate is considerably influenced by situations in the Middle East. Therefore, among economists there are now fewer people who hold the super optimistic view of keeping the value of the yen high. Especially now, since the U.S. economy is steadily recovering, there is a possibility that the average interest rate in the United States may increase considerably. Considering these factors, the future of the value of the yen will become especially unpredictable.

Then, a problem will arise. What would happen if the plus balance of Japan's foreign trade exceeds \$50 billion within these 2 years and the value of the yen does not increase much? What the officials of the Finance Ministry are alarmed about is that the financial and trade frictions may become a serious problem between the United States and Japan.

During the presidential election year, the problem of trade frictions over the import of meat and oranges will be discussed again. The problem is that this strong request for the liberalization of Japan's import of agricultural products will intensify acutely and it may even go further. Therefore, we can no longer avoid the problems of financial friction.

The Finance Ministry has always extended preferential treatment to its own people and this policy will never change. However, it is very doubtful that this basic Japanese policy will be able to convince the people of the United States. Those who are knowledgeable of the situations in the United States are warning and saying, "If we cannot readjust the trading gap between the United States and Japan by means of a yen to dollar exchange rate, something serious may happen."

Nomura Securities' plan of establishing a new Securities Corporation, affiliated with Morgan Securities, at such time when the U.S.-Japan financial friction becomes serious, cannot be easily accomplished.

The administrative office of Japan may have to change its policies and the time of the change may be approaching unexpectedly soon.

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